

**MICRO-FINANCE AND SMALL AND MEDIUM-SIZED ENTERPRISES:
THE SOCIAL, ECONOMIC AND ENVIRONMENTAL IMPACTS OF
COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS IN THE UK**

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ABSTRACT

This thesis explores how Community Development Finance Institutions (CDFIs) create social, economic and environmental impacts through their lending activities to small and medium-sized enterprises (SMEs). It aims to understand the overall behaviour and performance of CDFIs as micro-lenders to financially marginalised enterprises and consider the role that different expectations of impact have on their lending performance. The research responds to calls for CDFIs to improve the measurement of impact to demonstrate value. There are tensions in the CDFI business model that means they will only ever provide a partial solution to the finance gap. As a sector they will struggle to become fully sustainable and will be instead be reliant on periodic injections of Government capital. The research is based on a detailed comparative survey of the loan portfolios of four West Midland based CDFIs. It explores impacts through an analysis of data gathered from interviews with CDFI CEOs, the CDFI loan files, borrower interviews, and lending officer questionnaires. This research involved developing and testing a conceptual framework of impacts to identify wider additional significant impacts. These impacts could in future be used to undertake a local economic multiplier analysis of CDFIs that includes the wider impacts. The research identifies that whilst CDFIs generate a broad range of impacts from a wide variety of different types of enterprise, they are presently undercounting their full benefit to society. This is due to them following policy directives on impact measurement. Key findings identify that CDFIs create a small number of wider impacts from their lending activities that would be worthwhile collecting and reporting to help them access new sources of funding that may emerge in the future.

In loving memory of Grace Poole

‘Look after the pennies and the pounds will look after themselves’

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Glossary of Terms

ART: Aston Reinvestment Trust

BCRS: Black Country Reinvestment Society

BERR: Department for Enterprise, Business and Regulatory Reform

BOE: Bank of England

BIS: Department for Business Innovation and Skills

CASE: Collaborative Awards in Science and Engineering

CDFA: Community Development Finance Association

CDFI: Community Development Finance Institution

CDLF: Community Development Loan Funds

CSR: Corporate Social Responsibility

CSO: Community Service Organisation

CWRT: Coventry & Warwick Reinvestment Trust

ERDF: European Regional Development Fund

EREBUS: Engaging Research for Business Transformation

ERGF: Exceptional Regional Development Fund

ESRC: Economic and Social Research Council

FCA: Financial Conduct Authority

FFC: Fair Finance Consortium

FSA: Financial Service Authority (Defunct 2013, and split into FCA and PRA)

GDP: Gross Domestic Product

GHK: GHK Holdings Limited (part of ICF Consulting Limited)

GVA: Gross Value Added

ICOF: Industrial Common Ownership Finance Ltd

Impetus: Impetus-Marches, Rural Reinvestment in the Marches

LEP: Local Enterprise Partnership

NACUW: National Association of Credit Union Workers

NEF: New Economics Foundation

NSFNR: National Strategy for Neighbourhood Renewal

PRA: Prudential Regulation Authority

RBS: Royal Bank of Scotland

RGF: Regional Growth Fund

ROI: Return on Investment

SFLGS: Small Firms Loan Guarantee Scheme

SIC: Standard Industrial Classification

SIMPLE: Social Impact for Local Economies

SME: Small to Medium-sized Enterprise

SPM: Social Performance Measurement

SROI: Social Return on Investment

SROL: Social Return on Lending

TSRC: Third Sector Research Centre

UKSFI: UK Sustainable Investment and Finance Association

WTOF: Welcome to Our Future

1 MICRO-FINANCE AND SMALL AND MEDIUM-SIZED ENTERPRISE: MEASURING THE IMPACTS OF COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

1.1 Introduction

In May 2015 an article titled *'Cheap loan made my bead shop a success'* outlined how the small business owner of 'Monty Bojangles' was the recipient of an interest free loan from the Sir Thomas White Loan Charity (Hamilton, 2015:99). The article outlines how the loan enabled the borrower to double the size of their shop, providing additional space to run jewellery-making workshops and increase their range of products. The borrower did not have to make any repayments of capital for the first three years' but has recently started paying back modest monthly amounts.

The loan to Monty Bojangles raises a number of interesting questions. Why do enterprises need to obtain finance? Why are some enterprises unable to obtain loan finance from banks? What other kinds of 'alternative' or 'additional' to the mainstream providers, financial solutions exist? How can a loan provider be sustainable when they are issuing loans with long payment breaks and modest monthly payments? What are the impacts that may be created when an entrepreneur obtains a loan?

The purpose of this thesis is to consider one type of micro-finance provider, Community Development Finance Institutions (CDFIs). CDFIs are often referred to as providers of finance to those on the margins of mainstream inclusion (Buttle, 2005; Appleyard, 2008, 2011, 2013). A micro-finance provider (micro-lender) is a type of organisation that provides and services loans to individuals and groups that are on the margins of financial inclusion. A CDFI is a social enterprise that develops a loan book based on a combination of public and third sector funds, designed to target financially excluded individuals and enterprises¹ (Bryson and Buttle, 2005). This thesis aims: to understand the organisational behaviour and performance of CDFIs as micro-lenders to financially marginalised enterprises and consider the role that routines and different expectations of impact have on their lending performance. This requirement comes from the capital funding that CDFIs receive from their own funders.

For the purpose of this thesis, organisational behaviour is defined as: the actions of individuals and groups towards one another and the enterprise as a whole, and the effect of those actions on the organisation's performance. Marginality can be viewed as a concept of capability deprivation that includes spatial and environmental dimensions (Sen 1999). Lending performance is contextualised as how effective CDFIs are at lending capital to enterprises on the margins of financial inclusion, and in line with their own organisation missions and the requirement for them to demonstrate impacts.

¹ Throughout this thesis the term 'enterprise' is used to describe any business, not-for-profit organisation, third sector or civil society organisation.

This chapter first considers the finance gap, information asymmetry and loan performance. Second, it explores Small and Medium-sized Enterprises (SMEs) and financial exclusion. The third part considers alternative and additional economic spaces and identifies CDFIs as one solution towards helping to counteract financial exclusion. It highlights how CDFIs are funded and that this funding comes with a requirement to demonstrate impacts. As the central theme of this research, impacts are conceptualised and the weakness of current CDFI impact measurement is explored. The fourth section identifies the four CDFIs that are the focus of study in this thesis. The final part outlines the research aims and thesis structure.

1.2 The Finance Gap

Finance is a term that can be described as the provision of credit to a person or enterprise. A consistent theme within the literature on SMEs in advanced capitalist societies is the existence of a finance gap (Armstrong *et al.* 2013; BOE, 2004; Leyshon and Thrift, 1999; Macmillan, 1931; Mayo *et al.* 1998; Storey, 1994; Taylor and Thrift, 1982, 1983). This finance gap is defined as: ‘an unwillingness on the part of suppliers of finance to supply it on the terms and conditions required by small businesses’ (Storey, 1994:239). In 1931 the Macmillan report provided an analysis of banking and financial services to assess their impact on UK trade and industry. One of the enduring outcomes of the report was the identification of an equity gap for SMEs, who were excluded from mainstream banks lending; this failure for finance providers to meet the requirement for capital became known as the Macmillan Gap.

As for-profit commercial businesses, mainstream banks are interested in one outcome when they provide loans to businesses. This is to maximise shareholder returns. To achieve this, banks attempt to reduce their exposure to risk and maximise profits by lending to individuals and enterprises that they believe are more financially viable propositions. The mainstream lending process relies heavily on transactional lending predominantly through the use of credit scoring (Leyshon and Thrift, 1999) and this makes it simple for banks to quickly amend their assessment criteria. When economies contract, banks tighten their lending criteria constricting the flow of funds to enterprises and safeguarding their own balance sheets (Armstrong et al. 2013). This has the effect of excluding some individuals and enterprises from access to finance.

The existence of a finance gap is indicative of market failure. Its continued existence is caused partly by the credit scoring and risk assessment tools used by mainstream banks to reduce their own exposure to risk and to increase their own profitability (Taylor and Thrift, 1982, 1983; Leyshon and Thrift, 1995, 1999). The way that banks assess the viability of loans is driven by their business objectives. Mainstream banks are private for-profit institutions with numerous stakeholder groups. In the wake of the credit crunch cash bailouts to UK banks totalled £133 Billion and they have also benefitted from state guarantees against the failure of their core business totalling £1,029 Billion (NAO, 2014). Armstrong *et al.* (2013) suggest that the supply of credit from mainstream banks remained tight between 2010 and 2013 well after the height of the 2008 financial crisis.

Arguably the finance gap will have within it different levels of marginality or financial exclusion. There will always be propositions that are non-viable for any lender to consider and there will always be a finance gap. For any enterprise that operates in the marginal lending space around the finance gap, one challenge will relate to understanding that space and make appropriate lending decisions.

1.3 Small and Medium-Sized Enterprises (SMEs) and the UK Economy

An enterprise can be defined as a business, project or undertaking that exists to produce some form of return (usually financial in nature). In the case of charities and social organisations (CSOs) often the return is to work towards fulfilling a stated social mission. Enterprises fall into one of five categories by size. The first are individual people operating as sole traders. Second are micro enterprises with one to nine employees. Third are small enterprises with 10 to 49 employees. Fourth are medium-sized enterprises that have between 50 and 249 employees. Finally, there are large enterprises that employ 250 or more people. Collectively the first four categories are known as small to medium-sized enterprises (SMEs) account for 50.3% of UK employment and 48.1% of turnover (Table 1.1).

Table 1.1 BIS Estimated Number of UK Businesses 2013

	Businesses	Employment (000s)	Turnover* (£ Millions)
All businesses	4,895,655	24,332	3,279,961
SMEs	4,889,060	14,424	1,577,563
0 Employees**	3,684,740	4,033	208,628
1-9	986,890	3,729	387,654
10-49	186,745	3,664	489,999
50-249	30,685	2,998	491,282
250 or more	6,595	9,907	1,702,399

Note. *Total turnover figures exclude SIC 2007 Section K (financial and insurance activities) where turnover is not available on a comparable basis. **0 Employees comprises: sole proprietors / directors and partnerships comprising only the self-employed owner-managers(s).

Source: (BIS, 2013a).

1.3.1 SME Finance and Financial Exclusion

There are numerous reasons why SMEs require finance. These can include covering the costs of forming new ventures, expanding an existing enterprise, covering the costs of a specific project or to facilitate cash flow. Traditionally enterprises have predominantly obtained finance from the mainstream banks. The economic climate that has existed since the 2008 credit crunch has made it harder for SMEs to access finance (Armstrong et al. 2013).

It is widely acknowledged that financial crises have profound social and economic consequences. Economic depression induces a flight to quality by the financial services industry as they search for safer markets resulting in the

movement of funds from poorer to richer areas and a restructuring of mainstream financial operations to bring them into line with new flows of credit and debit (Leyshon and Thrift, 1995). Without finance enterprises can struggle to form, survive, grow and innovate. There has been an increasing focus on the withdrawal of mainstream banks from the lending marketplace and how best to provide public support to SMEs (Lee *et al.* 2009; Greene, 2012).

One definition of financial exclusion by Leyshon and Thrift (1995:9) is: 'processes that serve to prevent certain social groups from gaining access to the financial system.' McKillop & Wilson (2007:9) expand upon processes and define financial exclusion as: 'the inability, difficulty or reluctance of particular groups to access mainstream financial services.' Some of these processes can be organisational behaviours. Financial exclusion can take many forms, from individuals and enterprises being unable to access unsecured facilities such as overdrafts, credit cards and loans through to them being unable to obtain secured finance. Individuals and enterprises can be partially financially excluded, whereby they have access to some mainstream finance but are unable to obtain all the finance that they require. This thesis is concerned with one type of financial exclusion, this being the inability of SMEs to obtain their full finance requirements from the mainstream banks. The existence of a finance gap for SMEs has historically been well documented (Macmillan, 1931; BOE, 2004; Mayo *et al.* 1998; Storey, 1994; Taylor and Thrift, 1982, 1983). Helping to tackle this equity gap, there are a number of alternative financial options that enterprises can attempt to utilise.

1.4 Alternative and Additional Economic Spaces

As mainstream financial institutions withdraw from deprived areas, they create new markets known as alternative economic spaces. Local communities can occupy these new alternative economic spaces to gain financial independence (Lee, 1999). The withdrawal of mainstream financial institutions from deprived areas and the subsequent increase in alternative forms of finance has resulted in an increased interest in alternative economic spaces (Leyshon and Thrift, 1995, 1996, 1997; Lee, 1999; Fuller and Jonas, 2003; Leyshon and Lee, 2003; Buttle, 2005, 2007; Appleyard, 2008; Fuller *et al.* 2010).

Social banks such as Big Society Capital, Charity bank, Co-operative bank and Triodos are examples of one type of alternative provider of finance. Benedikter (2011) illustrates that social banks have seen an increase in popularity since the 2008 credit crunch with growth of 20% per annum and a doubling of assets between 2007 and 2010. As more people have moved funds into social banks, they moved from being niche institutions to larger more publicly visible organisations. Benedikter (2011:1) highlights that 'social banks in Europe lend money to socially responsible initiatives for much lower interest rates than mainstream banks, and donate money to people and projects that promote the greater good.' The organisational behaviour of social banks is broadly similar to mainstream banks. However, rather than focusing on maximising profit and generating shareholder return, social banks differ from mainstream banks by operating to a triple bottom line. The triple bottom line attempts to balance social, financial and environmental objectives (Appleyard, 2008:17). Emerson (2003) called this type of impact investing the 'blended values' approach.

Another option for borrowers, and the focus of this thesis, are Community Development Finance Institutions (CDFIs). CDFIs are all individual organisations, operating in different ways and in different lending spaces. Differences between CDFIs can be in terms of their size, areas of coverage, types of borrowers they support or their individual social missions. Examples of differing lending spaces include CDFIs that differentiate themselves by providing personal finance loans, home improvement loans and creative industry loans, or that focus on start-up enterprises, female-led businesses and ethnic minorities. Despite these differences they often have one key similarity. This is that they are accessing similar sources of capital funding.

1.4.1 Community Development Finance Institutions

CDFIs were established in America in the 1960s to fill the niche in the lending market that mainstream banks had withdrawn from resulting in an intensification or extension to financial exclusion (Leyshon and Thrift, 1995). The CDFI concept that had been developed in America in 1994 was formally adopted and applied to the UK by the Labour Government in 1999 (NSFNR, 1999 in Appleyard, 2008:114). Established prior to this, organisations such as DSL Business Finance (1993) and Aston Reinvestment Trust (ART) (1997) were providing community finance to those that were financially marginalised. These early pioneers required capital funding which they received from the EU, charitable trusts and foundations, private investors and banks (in the form of leverage), and later from the UK Government.

Following the formal adoption of the CDFI concept by the Labour government, in November 1999 the Secretary of State for Trade and Industry announced the creation of The Phoenix Fund. The fund was created to address recommendations set out in the Policy Action Team 3 (PAT 3) report *Enterprise and Social Exclusion* published by HM Treasury in 1999 (GHK, 2004, 2010). It was hoped that the fund would encourage entrepreneurship in disadvantaged areas and tackle social and financial exclusion through the creation of enterprises and jobs. It was thought that providing finance to entrepreneurs in disadvantaged communities would help develop self-confidence and determination in local people, as well as regenerating local communities. CDFIs were one of the chosen financial vehicles for disseminating funds.

Following ARTs inception other CDFIs were been established across the UK (ART, 2013). The growth of CDFIs in the UK led to the creation of the Community Development Finance Association (CDFA) which supports CDFIs and is charged with, among other things, creating favourable operating environments for CDFIs, establishing codes of best practice, lobbying Government and increasing access to capital and revenue. The CDFA currently has 54 members² (CDFA, 2014).

In some ways CDFIs and social banks are similar. Both work to fulfil a bottom line which comprises of social, financial and environmental objectives (Appleyard, 2008). A key difference between CDFIs and social banks is that CDFIs focus on lending to financially marginalised enterprises and as such they are not in competition with mainstream or alternative providers of finance.

² Listed in Appendix 9.1 p.324.

Instead CDFIs are lenders of last resort as for the borrowers no alternative source of loan funding exists. Fuller *et al.* (2010:81) support this outlining that CDFIs: 'are not rivals to mainstream institutions, [as] they are themselves dependent upon the efficient operation of a diversity of mainstream institutions and, what is more, they are integrated into the wider society in terms of their inclusion into its taxation, regulation and legal systems.'

CDFIs help enterprises to obtain loan capital in two ways. First, they provide viable enterprises with loan capital which comes in part from leveraged funds from mainstream financial institutions. Second, they facilitate the movement of their borrowers from financial exclusion to financial inclusion. For example, a CDFI loan will provide a new enterprise with a financial track record, business history, and improved credit score (as long as the loan is successfully repaid). CDFIs are embedded within the mainstream financial services sector, as they access funding from banks to leverage funds obtained from Government and EU funders. CDFIs can be defined as an additional form of finance provider that operate in conjunction with mainstream financial services to provide finance to individuals excluded from mainstream and alternative sources of finance.

The Government recognises the importance of CDFIs in helping to tackle the financial exclusion (BIS, 2010a). This recognition comes in the form of capital injections to help the sustainability of CDFIs, as they will always have high default rates due to marginal marketplace in which they operate. Due to the nature of CDFI grant funding, CDFIs can afford to take higher default risks when assessing loan applications (Bryson and Buttle, 2005).

1.4.2 Funding CDFIs

CDFIs are funded in a number of ways. Two main schemes exist in the form of the Regional Growth Fund (RGF) and the European Regional Development Fund (ERDF). The RGF was set up by the Government to support job creation and to safeguard jobs in the private sector. It consists of a £2.46 billion fund that the Government plans to utilise to support businesses until 2016. Organisations can bid for funds to spend on projects such as capital investment, training or research and development. Projects that submit successful bids must attract private funding to leverage the public RGF funding provided (Cable, 2013). For CDFIs, leverage is primarily in the form of borrowing from the mainstream banks. Established in 1975, the European Regional Development Fund (ERDF) was set up as a funding stream to ensure that EU membership could demonstrate measurable economic benefits. It was primarily supported by the UK and Italy and has subsequently become the main way that the EU has implemented its regional policy. The ERDF 'want[s] economic growth to be more evenly shared across the country and between industries' (Pickles, 2012). They aim to achieve this by targeting EU funding into areas that have found it difficult to attract private investment, thus improving economic competitiveness. The West Midlands is one of nine regions to qualify for Competitiveness and Employment funding, receiving €400 million, from the 2007 to 2013 programme.

Alongside the RGF, ERDF and leveraged funding, CDFIs target and attract sources of finance from: charities, philanthropic individuals, companies and trusts. They target emerging sources of funding such as the New Enterprise Allowance scheme, the UK Government Start-up Loan scheme and actively form

partnerships with Local Enterprise Partnerships (LEPs) and Local Authorities to act as intermediaries for funding schemes.

Prior to the formation of LEPs, CDFIs accessed funding from Regional Development Agencies (RDAs). An example of CDFI and RDA cooperation was Advantage West Midlands (AWM)³ providing financing for loans with 'soft' interest rates to be issued by CDFIs. These loans of up to £20,000 were issued to enterprises that were victims in the 2007 flooding. RDAs have been replaced by smaller LEPs. Recently six LEPs from the West Midlands announced an agreement to join together to create central investment fund worth £125 million with funding from European Structural and Investment Fund (ESIF). It is expected that this fund will help enterprises in the West Midlands to create or safeguard 9,000 jobs and 400 enterprises (Danks, 2014). Many of the funding schemes that CDFIs access have a requirement to evidence value for money against the funding objectives. Future funding for CDFIs from ERDF, RGF and other funders will increasingly involve the measurement of wider impacts.

1.4.3 Impacts and CDFIs

There are differences between impacts and outcomes. Outcomes tend to be pre-defined consequences of an intervention and can be measured objectively, whereas the personal experiences and nature of impact tends to be more subjective. The nuances between an impact and an outcome are rarely discussed.

³ It was announced in 2010 that RDAs would be disbanded in March 2012.

An outcome is a finite and often measurable change. On this basis, the reach and scope of an outcome will be pre-defined and limited in space and time. For example, the outcomes of an intervention designed to offer loan finance to female entrepreneurs, to stimulate new start-up companies within a specified region, should be the creation of new female-led firms in the different towns and cities of that region. This outcome is measurable in time and space, as once the intervention is launched the number of loans made to females starting new firms, across the region, can be calculated.

In contrast, impact refers to the wider effects of an intervention. Impacts can be direct, indirect, induced or dynamic (Miller and Blair, 1985). From the above example, some of the direct impacts might be the jobs that are created as a result of the new firm, the impacts on local and national suppliers and communities. Wider additional impacts might include the empowerment or wider life experiences of the borrower and enterprise staff, an increased sense of happiness, a decreased sense of insecurity and an increase in self-sufficiency. Impacts also work both ways. The repayment of the original loan capital to the CDFI would be an obvious direct economic impact for a CDFI. However, there might be wider impacts for the CDFI as well, such as an increase in lender knowledge of a sector, access to new client bases, positive publicity from case studies or press coverage of their intervention.

Impacts are not always positive. On a basic level, negative impacts can be the direct opposite to any of the positive impacts. A positive impact of increased sense of security will be negative if the intervention causes a decreased sense of

security. There can be multiple interpretations of what might constitute a negative impact. If the positive impact is the creation of jobs, then just a few of the negative impacts might be that those jobs are low skilled, poorly paid or that they are highly paid but also highly stressful. Exploring the concept of impact in this way illustrates that some impacts can be both positive and negative. They can also change over time. If a borrower takes a salary cut or leaves a full-time job to start an enterprise this might be an initial negative impact for that borrower and perhaps their family. If the enterprise is subsequently successful the longer-term impact might be an enhanced level of personal wealth, security or wellbeing. In this case, an impact can be conceptualised as the longer-term effect of an outcome that occurs due to an intervention.

On a simple level impact can be categorised as the marked effect or influence of one thing upon another. In the context of this research impact is used to mean the effect of CDFI lending on the borrower, their enterprise, the local and regional communities and the effect of the loan on the CDFI. To date, the CDFA has focused on six main impact measures. These are jobs created, jobs saved, businesses created, businesses saved, turnover and leverage (CDFA, 2012a; 2013). Recently the CDFA has stopped measuring turnover (CDFA 2014).

An important question in any evaluation is what would have happened in the absence of assistance? Developing an understanding of this counterfactual, involves considering two key components of additionality, deadweight and displacement (Lenihan, 2004). Additionality is the extent to which something happens as a result of an intervention. Deadweight is the extent to which any

change, for instance an increase in employment or service provision, would have happened anyway, whereas, displacement is the extent to which impacts have been achieved in one area at the expense of another area (McEldowney, 1997; Lenihan, 2004). In this thesis deadweight is defined as the degree to which impacts would have occurred without CDFI intervention. Even if deadweight does not occur, there still remains the possibility that assistance allocated to one enterprise produces negative impacts elsewhere in the economy, such as through displacing jobs. This is known as displacement and is defined within this thesis as the multiplier effect of CDFI loans on existing enterprises.

1.4.4 Weaknesses of Current Impact Measurement

The concepts of additionality highlight that an inherent problem when undertaking studies of impact is knowing whether the same outcomes or impacts might have occurred if the intervention being studied had not occurred. Impacts claimed by a CDFI may or may not have occurred without a CDFI loan. CDFIs do not measure or report any negative impacts, as to do so would have a detrimental effect on their own ability to access capital funding. However, they might have processes that allow loan officers and the CDFI to learn about or improve their own loan decision-making. Impacts are required for the loan application and this suggests that borrowers will develop a discourse intended to obtain a loan that might have limited relevance to reality. Thus, would the jobs created have occurred without the loan? Jobs created for a period but then are removed. Were the jobs saved ever under threat?

The current method of measuring the impacts of CDFI lending has one distinct disadvantage, in that it fails to identify and measure some impacts of CDFI lending activities. The CDFI approach primarily focuses on measuring the policy derived economic impacts but ignores many of the wider social impacts. Social impact can be defined as 'the effect of an activity on the social fabric of the community and wellbeing of the individuals and families' (Business Dictionary, 2013). Vanclay (2003) considers that 'all issues that affect people, directly or indirectly, are pertinent to social impact assessment', illustrating that social impacts are broader than demographic changes, jobs issues, financial security and impacts on family, but should include health, culture, heritage aesthetic and gender impact assessment (Becker and Vanclay, 2003; Vanclay, 2003). CDFIs are not measuring or reporting the wider impacts of their lending activity. Due to CDFIs obtaining funding from different sources, some are collecting and reporting different impacts to satisfy differing reporting requirements. This leads to inconsistencies in measuring and reporting impacts, preventing any meaningful comparison from taking place across all CDFIs.

For CDFIs there is tension between lending to financially marginalised enterprises whilst attempting to select loan propositions that are viable and generating impacts that are desired by CDFI funders. Loan performance is itself an impact. Successful loans have a positive financial impact CDFIs and borrowers. CDFIs are able to utilise repaid funds and borrowers that are no longer repaying loans have improved cash flows and in theory enhanced credit scores which might make them bankable. This in itself highlights an inherent tension within between the CDFI client base and organisational behaviour of a

CDFI. If a loan performs and an impact of that loan results in the borrower becoming bankable, the CDFI will have reduced the pool of viable but marginal businesses to which it can lend. If there are levels of marginality to the finance gap then CDFIs will continually increase the level of risk to their loan portfolios. This would make them less sustainable. Alternatively, CDFIs might overestimate impacts in order to lend to bankable businesses as a means of reducing the default risk on their loan portfolio.

1.5 The West Midland CDFIs

This research is based on the analysis of the impact created by four CDFIs that operate within the West Midlands region, UK. These are: Aston Reinvestment Trust (ART): Black Country Reinvestment Society (BCRS): Coventry and Warwick Reinvestment Trust (CWRT): and Impetus Rural Investment in the Marches (Impetus). ART operates in Birmingham, lending to enterprises within the city and Solihull areas. Based in Wolverhampton, BCRS lends to enterprises situated in the Black Country and Staffordshire. CWRT is based in Coventry and provides enterprise loans in Coventry and Warwickshire⁴. Impetus covers the border counties that make up West Mercia. These CDFIs have different mission statements that reflect their individual social aims and impact (Figure 1.1).

⁴ CWRT also provide personal loans, which are not covered within this thesis.

Table 1.1 CDFI CASE Partners Mission Statements

CDFI	Mission statement
ART	As a Community Development Finance Institution (CDFI) ART's remit is to ensure that viable businesses and social enterprises in the West Midlands can access the finance they need
BCRS	To meet the demand for loans from small businesses, social enterprises and other organisations that contribute to the social, environmental and economic wellbeing of the area but are unable to access finance from traditional sources such as banks
CWRT	“To make a difference, together” by supporting individuals & businesses to start & grow by providing training, mentoring and business loans in order to help them turn their dreams into reality
Impetus	We're here to help the local economy grow and thrive by providing funds to develop new work and job opportunities

(ART, 2014; BCRS, 2014; CWRT, 2014; Impetus, 2014)

1.5.1 Justification and Research Aims

There are three key themes that underpin the justification for this research. First that there are enterprises that have (fully or in part) access to finance issues which makes it difficult for them to start, operate or grow. Second that there are additional finance providers that help financially excluded enterprises to access finance and this thesis relates to one group of them, the four CASE partner CDFIs. Third that as publicly backed organisations; there are issues around how CDFIs currently measure impacts and demonstrate effective use of public funding.

This thesis explores access to finance to those enterprises that are on the margins of financial inclusion. CDFIs operate within that market, providing loans to those who are part bankable or completely excluded from traditional means of finance. Whilst some CDFIs operate their own loan funds, many are partly or fully sustained by injections of capital from Government. These injections of capital have attached to them a requirement to demonstrate impact. Accordingly, these policy impacts have become the basis for the evaluation of CDFIs and thereby influence lending practices. The policy impacts undervalue the contribution that CDFIs make and reduce the effectiveness of the taxpayer spend by limiting the CDFIs ability to lend to enterprises that do not demonstrate the desired policy impacts.

The failure of CDFIs to measure and report some impacts from their lending activities provides the rationale for the thesis research aims. Governments, policy initiatives and funding schemes change and CDFIs need to anticipate future changes if they are to ensure that they are able to access this type of funding in the future. One way that CDFIs will be able to measure the full impact that their organisations have is to undertake an economic multiplier analysis. At present undertaking one would fail to account for the wider additional impacts of their lending. This thesis is concerned with identifying a typology of impact measures that includes wider additional impacts.

The primary aim of this thesis is: to understand the organisational behaviour and performance of CDFIs as micro-lenders to financially marginalised enterprises and consider the role that routines and different expectations of impact have on their lending performance. The research has three aims:

1. To identify and examine how CDFIs impact upon financially marginalised enterprises and communities in which they operate.
2. To explore the organisational behaviour and lending activity of the four West Midlands CDFIs by undertaking an audit of their loan files, borrowers and activity of their loan officers.
3. To develop a typology of impacts that could be used to explore the wider social benefits of any CDFI loan or loan portfolio as part of an economic multiplier analysis in the future. This includes identifying current impacts and undertaking an analysis of the relationship between those impacts and lending behaviour.

1.6 Thesis Structure

Chapter Two identifies and explores the academic literatures and debates that underpin the thesis. The literature review identifies the research gap as a series of constraints placed on CDFIs by funders and by their own mission statements which prevents them lending to some individuals. This leads to an exploration of the key conceptual literatures that underpin the thesis: routines, path-dependency, embeddedness and isomorphism.

Chapter Three provides an outline of the research techniques used in this study. It includes a discussion outlining the turbulent macroeconomic environment that has existed during the course of the PhD. It ascertains that the CASE partners are a representative sample of UK CDFIs by comparing their outputs against reports produced by the CDFA and finding no significant variations. A description of the impacts framework construction establishes that collaborative efforts with the CASE partners were used during the course of its development. The framework stage leads to a detailed description of the composition of the loan files and illustrates how the CDFIs loan files were used to validate the impact framework measures identified. The chapter summarises the sampling strategy, interview question development and file data collection. The interviews phase with borrowers and lending officer questionnaires is then outlined in detail. Finally, how the data analysis was conducted is outlined.

Chapter Four provides a contextual account of the drivers behind current impact evaluation and undertakes an analysis of the current impacts using the data. The chapter begins by exploring the origins of CDFI evaluation, before illustrating how they currently measure impacts and identifies the similarities and differences between CASE partners. The application of the debates on the ordered economy (fixation on audit and evaluation), KPIs (driving and distorting policy) and the role of consultants (reinforcement of KPIs) are discussed. Following this three tiers of impact are identified. The first is the policy derived current impacts, in relation to CDFIs. These are analysed using the data collected from files, borrower interviews and lending officer questionnaires: thus, a benchmark of current impacts is established. The audiences of impact

measurement are explored. The chapter concludes that there are tensions within Whitehall and a need for appropriate KPIs.

Chapter Five develops a qualitative analysis of CDFI lending and impact through the detailed exploration of three CDFI borrowers. The first case study explores a manufacturing enterprise, the second a CSO and the third a service enterprise. The case studies highlight the iterative and integrated nature of impacts, and that enterprises of all types produce many similar, conventional and additional impacts. The chapter concludes that if an impact is isolated, then it ignores the wider impacts that may have been created by the loan event, and that the lending processes that occur within a CDFI influences the creation of impacts.

Chapter Six starts by exploring the stakeholders and embeddedness, and follows this with a presentation of the characteristics of the CDFI borrowers. It explores the data by sector, and by two impact characteristics of borrowers that the CDFIs are required to measure for the ERDF, these being gender and ethnicity. The statistical analysis uses correlations to explore the relationship between impacts. The chapter concludes that there are a small number of additional impacts that it is worthwhile collecting.

In Chapter Seven the influences on impact within the CDFI lending process and the relationship between lending process and impact are explored. The first section highlights the background conditions that surround the lending process, these being the history of the CDFIs, constraints in lending and the loan officer characteristics. Following this there is a detailed examination of the lending

process and an examination of cases that highlight the loans, applications and impacts of different CDFI loans. This is followed by an exploration of the main concerns of CDFI loan officers, an examination of loan default and firm failure. Finally the characteristics of loan performance are outlined.

Chapter Eight draws together the findings from the empirical analysis linked to the conceptual framework used to the impacts that result from CDFI lending.

1.6.1 Summary

Entrepreneurs that are precluded from loan finance are prevented from establishing firms and developing business opportunities. A consistent theme in the literature relating to SMEs is the concept of a finance gap (Macmillan, 1931). This gap is due to the higher default rates associated with near bankable borrowers. Operating in this alternative economic space (Lee, 1999) there are a number of alternative and additional providers of loan finance. Perhaps the most important of these in terms of providing ethical loan finance to underserved markets are CDFIs. As lenders of last resort, CDFIs lend to borrowers by developing a portfolio of revolving loan funds. CDFIs do not operate to maximise profit and generate shareholder return. Instead, value is sought through the development of societal impacts such as increasing social capital, overcoming disadvantage and financial exclusion.

2 SME ACCESS TO FINANCE: COMMUNITY DEVELOPMENT

FINANCE INSTITUTIONS AND IMPACTS

2.1 Introduction

One way to explore CDFIs is to consider how their organisational behaviour and decision-making processes enable them to raise their own capital, attract borrowers, lend and create impacts. Some of the primary stakeholders of CDFIs are the capital funders and one of the organisational behaviours of a CDFI will include a process of obtaining capital funding to maintain the CDFI. Many funders place expectations on CDFI to measure and record impacts. Behind these business functions there is a process of developing the case to support the primary business functions and this is achieved through the measurement and reporting of impacts. However, the requirement to generate impacts causes tension between these operational processes. Loan officers within CDFIs have to attempt to balance these tensions, when assessing loan applications, with possible impacts that might come from the loan and the impact that the loan might have on the sustainability of the CDFI. This sustainability can be conceptualised as the ability of the CDFI to safeguard its own balance sheet and loan portfolio, and its ability to access capital funding by generating the desired outcomes of the funders.

There are very few papers relating to CDFIs (Buttle, 2005; Derban *et al.* 2005 and Appleyard, 2008) and those that exist are primarily focused on the lender rather than the borrower. The bulk of the literature comes from consultancy which is

instrumental in nature. It has been commissioned to answer a specific question. Due to the political agenda surrounding CDFIs, Government either engages or disengages. What is required is an analysis of impacts alongside the CDFI loan process that focuses on both borrowers and lenders. This provides a holistic view on the impacts that arise as a result of a loan event.

Routines (Winter 1964), path-dependency (David, 1985, 1986, 1988; Arthur, 1988, 1989), embeddedness (Polanyi, 1944; Granovetter, 1985), isomorphism (DiMaggio and Powell, 1983) and communities of practice (Wenger, 2008) provide the conceptual framework for this thesis. There is a need to develop an understanding of social impact and also the practices within a CDFI that lead to impacts. Those practices are about routines and decision making. By developing an understanding of impacts CDFIs will be able to engage more actively with the policy context in which they operate. This provides the justification for the theory employed to explore CDFIs and impacts.

2.2 Information Asymmetry and Loan performance

The process of lending by any type of financial institution is to make a decision on whether the credit will be repaid. A loan event can be conceptualised as an act of information exchange, whereby the financial institution attempts to reduce information asymmetries through the provision of credit. In any form of transaction information asymmetry exists. Information asymmetry relates to the amount of knowledge each party has during the course of a transaction or business relationship. When one party has more information or better

knowledge than another party, then that enhanced knowledge is information asymmetry. When considering mainstream bank lending, Lean and Tucker (2001:44) argue that 'the information asymmetry problem has been exacerbated in recent years by further centralisation in bank lending decisions and the introduction of computerised business credit-scoring' (own emphasis). From a lenders perspective, incomplete information regarding the underlying quality of a project and the management of the SME can result in adverse selection (Stiglitz and Weiss, 1981). Information asymmetry can result in good lending prospects being rejected and poor prospects being accepted (Altman, 1968).

The relationship between a lender and its clients is inherently about information asymmetry and forms a core part of the lending process. A constant challenge in any loan event is the need to capture the required information to make an appropriate lending decision. A borrower will know more about the workings, motivations and objectives of their firm, than the lender. In some instances they might have privileged information relating to loan performance and the lender will not always be able to capture that information. For example, a borrower may put into place an unsecured loan that they know is likely to default. It is down to the lender to establish whether the loan will be repaid. The lending decision is a process which is about capturing the most perfect information possible. Lenders will try and put into place proxy measures and develop an understanding of what that client is trying to achieve. This can be captured by credit scoring or by relationship lending. For CDFIs it is by relationship lending. Boot (2000:10) defines relationship lending as 'the provision of financial services by a financial intermediary that engages in multiple interactions with the respective

borrowers and over time obtains proprietary information on borrowers.’ For the purpose of this thesis this definition is taken to define relationship lending.

A CDFI will know more about their business and the sort of impacts that they want to make than a borrower. The borrower will know more about their business than the CDFI. What is required during the lending process is an exchange of information between the two parties. An issue within CDFI lending which is similar to bank lending is the difference in perspectives of the borrower and lender. The borrower will not understand the lender and the lender will not understand the client. The difference that a CDFI has is that, in comparison to a standard banking relationship, they have a requirement to demonstrate impacts. This complicates information asymmetry in the lending process. CDFIs want to know the borrower is likely to repay and that it is a viable loan but a CDFI will also want to know about the wider impacts that will come from the loan. The borrower will be more concerned with running their enterprise and impacts will not usually form part of their business model. They will be less concerned about impacts other than how they can help them obtain a CDFI loan.

2.2.1 Loan Performance

Some of the needs of financially marginalised enterprises in the UK include small loan amounts, minimal waiting time for the loan to be approved and market interest rates which need not be below standard banking rates (Copisarow, 2000). Exploring the characteristics of lenders (Hulme and Mosely, 1996) identified the design features of the loan as being of particular importance to the

loan performance and categorise these features into three main groups: access methods, screening methods and incentives to repay. If these borrower needs and institutional characteristics are not met then borrowers may find it difficult to repay a loan. Thus, the cause of the default would be in part due to the lender.

Most loans are categorised as in default after they are 90 days overdue. A non-performing loan is generally taken to mean a loan that is in default or close to being in default. Conversely, a performing loan is broadly defined as a loan where repayments are less than 90 days overdue. A loan that has been successfully repaid can be considered a performing loan. Due to the relationships that CDFIs have with their borrowers, in the context of this research loan performance is taken to mean the loans that are not in arrears or overdue.

2.3 Academic Research and Published Literature on CDFIs

The existing literature on CDFIs consists of academic research predominantly undertaken by geographers, and some of which were funded by CDFIs, social policy literature and consultancy reports. This section explores this existing literature to develop an understanding of loan performance and impacts, social finance organisations and impacts and impacts from a US and UK perspective.

2.3.1 Research Literature

There has been some research that explores the institutional factors, client characteristics and loan performance of CDFIs. Derban, *et al.* (2005) identify

eight characteristics that significantly influence loan repayment performance. These were categorised into three lending terms and five institutional features.

The three lending terms consist of loan term, minimum loan size and loan processing time. First, in contrast to their hypothesis, they found that loans with longer terms had a better loan performance. They offer the modal age of the loan and terms of the loan as two explanations for their findings. The modal age of the loans was two years with loan terms ranged from ten to 36 months. Thus, many loans had not reached maturity and could not be classified as defaulted. They reasoned that the term of the loan related to the use of the funds. Most CDFI loans were used for capital expenditure and that consequently CDFIs issue a greater number of longer term loans. Second, they found that small loans resulted in higher loan loss rates and that for these borrowers grants might be more appropriate. Third, shorter loan processing times resulted in improved loan performance. They argue that a shorter processing times develops borrower confidence in the CDFI making them more likely to repay.

An alternative explanation for the findings of Derban, *et al.* (2005) might be that loans with longer terms are likely to be large loans. It is feasible that large loans are made to borrowers and enterprises with greater financial and social capital. If the loan applicant is less marginal and the prospect is viable, then it is likely that the lending decision will be easier and faster than the lending decision for a small loan to a more marginal borrower. This raises questions about the different levels of marginality that might exist within a CDFI client base.

The five institutional features identified by Derban, *et al.* (2005) were ethnicity, gender, training, coverage and CDFI age. The most significant institutional feature finding was that CDFIs that targeted ethnic groups suffered from higher defaults. Firstly, ethnic minorities are over represented in areas of deprivation making them a higher risk to lenders. Secondly, these CDFIs lacked diversity in the loan portfolios. This finding is supported by similar research undertaken by Martin and Carter Hill (2000). In a finding consistent with Evers *et al.* (1999), they found that offering training alongside finance increases the default risk. They argued that CDFIs should focus on their core objective, the provision of loans, as offering training leads to a conflict of interest in the assessment process.

Loans to female-led enterprises resulted in lower loan loss rates. Coverage referred to whether the CDFI offered its services locally. They found that more locally orientated service would reduce loan loss rates, by enabling them to gather information necessary to make effective lending decisions. Finally, established CDFIs had lower defaults. This differed from their hypothesis which suggested that younger CDFIs with fewer matured loans would have higher loan performance rates. Derban *et al.* (2005) suggest that older CDFIs benefitted from greater experience and a better understanding of the communities in which they operate. They also argued that there were issues surrounding the dissemination of best practice, with younger CDFIs not learning from established CDFIs.

Many of the institutional features (ethnicity, gender, training offered and coverage) can also be categorised as borrower characteristics. This is not recognised by their study as they focus on loan performance from an

institutional perspective. The poor loan performance from CDFIs that focused on lending to ethnic minorities, and loans from CDFIs offering training alongside loans, highlight that impacts can be negative. Derban et al. (2005) do not elaborate on the impacts on the CDFI or the borrower as a result of a non-performing loan. There are issues with their argument that offering training alongside the loan process undermines the loan application process. Training offered indicates that there are differences in the skillsets of different borrowers and that different borrowers have different needs. Arguably, a lending officer should prioritise loan repayment and viability ahead of offering training. An alternative explanation might be that individuals who need to utilise such training might have lower levels of social capital or lack the requisite skillsets. Possibly it identifies a shortcoming in the training that is offered by the CDFI. Coverage is indicative of the geographic location of borrowers. Different regional economies will have different levels of deprivation and different levels of financial exclusion.

If targeting specific communities and not having a diverse lending portfolio results in higher default rates, then CDFIs that operate in this space reduce their own sustainability. If those CDFIs are unable to sufficiently justify impact and secure additional funding to sustain them, then the high loan defaults will result in those CDFIs closing. If CDFIs close, the wider impacts of their lending in financially deprived communities will also stop. The repayment of credit is an impact that affects financial institutions. Loan performance has an impact on CDFIs. Successful loan repayment (and loan defaults) produce positive and negative impacts on CDFIs as well as on borrowers. There is a reciprocal

relationship to any CDFI loan event: the impacts that come from loans to borrowers and the impacts of that lending on the CDFIs. The impact on a CDFI is partly about risk and managing risk but will also be about learning from the loan experience. This learning will impact on how a CDFI makes loans in the future.

Buttle (2005) explored ethical finance in the social economy by undertaking research that focused the lending processes and money flows of Social Finance Organisations (SFOs) and CDFIs. Buttle (2005) explored the antecedents of Charity Bank's formation, how it funded its loan making activities to social enterprises and the impacts of those loans on the SFO borrowers. Four key findings emerged from the research. SFOs are complex, alternative in nature, need to balance social and financial values, and be embedded within networks (Buttle, 2005:256-261). Social enterprises, charities and voluntary organisations operate in a diverse spectrum of fields and loans can be used for a variety of purposes. Lending cannot be at a distance and lenders need to understand the borrower's aims and objectives, and context of the loan, to balance the social and financial outcomes (Buttle, 2005:259). Amin *et al.* (2003) indicate that the way that knowledge is utilised needs to be sensitive to the needs of borrowers and recognise that many social objectives, such as empowerment, advocacy and capacity building cannot be quantitatively measured.

However, qualitative objectives such as empowerment can be measured quantitatively. One way to consider empowerment can be to describe it as people fully participating in the decisions and processes that shape their lives. This makes it possible to create quantitative indicators of empowerment. One

example of a possible indicator might be to measure the impact of a loan on the financial marginality of the borrower. Empowerment might be measured by establishing whether the borrower has been able to access mainstream finance as a result of a loan. Being able to access mainstream finance enables the borrower to fully participate in the decisions and processes that shape his or her life. Conversely, a negative impact of a CDFI loan might be the result of a borrower being less empowered and less able to access mainstream finance as a result of the loan.

Appleyard (2008) undertook a comparative analysis between UK and US CDFIs. American CDFIs have a longer history, are larger in scale than their British counterparts and operate in different marginal markets such as in affordable housing. Loans can be secured against property which results in lower default rates (Appleyard, 2008:90). Unlike the UK, that has a complex web of partnerships and networks, each working in different ways, the US has an implicit financial inclusion policy Appleyard (2008:140). Appleyard's work briefly covered impacts and identified it as a future area of study. Three of the five UK CDFIs interviewed by Appleyard (2008:181) had undertaken post loan surveys and two sent out annual or quarterly questionnaires. These questionnaires were geared towards them assessing their own service and were designed to identify improvements to the effectiveness of their lending processes. In that sense they were designed to accomplish a set objective that was less about impact and more about their own organisational behaviour and processes.

The operations of alternative institutions are meant to differ from those of public and private enterprise (Appleyard, 2008:46). CDFIs make lending decision based on three related dimensions which add complexity to the process. This triple bottom line incorporates social, financial and environmental objectives (Appleyard, 2008:254). Financial objectives aim to create financial inclusion through employment and access to finance. Social objectives aim to create social inclusion by creating or retaining local jobs. Environmental objectives are typified by lending in local communities, and to environmentally friendly enterprises (Appleyard, 2008:292).

There are two types of CDFI: those that set their own strategies and agendas, and those that have been established in response to public policy (Appleyard, 2008:287). Appleyard (2008:293) argues that due to CDFIs requiring injections of grant funding they experience controlled and sustained failure. CDFIs will always require grant funding to cover the non-performing loans and higher default levels associated with providing loans to those on the margins of financial inclusion. This raises a question as to how the CDFIs that set their own strategies and agendas are sustainable. One of the primary aims of CDFIs is to move borrowers from financial exclusion into mainstream financial inclusion. If CDFIs were able to overcome financial exclusion then their purpose would cease to exist. Appleyard, (2008:288) argues that it is unlikely that CDFIs will ever reach a scale whereby they could overcome financial exclusion and that there will always be non-viable business propositions. As such a finance gap will always exist.

There is a temporal and geographical aspect to the finance gap. It was identified in the 1930s and different areas have different levels of financial deprivation. Economies fluctuate and policy changes which means that the finance gap is not a fixed concept and its size must also fluctuate. This means that there must be degrees of marginality within and around the finance gap. If the finance gap has different levels of financial marginality within it, at what point does it become an unsustainable space in which to operate? When do the impacts that might occur as a result of a loan no longer provide an adequate return on investment for CDFI funders?

Derban, *et al.* (2005) highlight that many of the borrower characteristics can also be indicators of the wider impacts of CDFI lending. It also indicated the impacts that come from loans to borrowers and the impacts of that lending on the CDFIs means that there is a reciprocal impact to any CDFI loan event. Buttle (2005) focused one type of borrower, the social enterprises. Different types of enterprise will produce different types of impacts. There is therefore a gap in the literature that relates to understanding the wider impacts that result as a consequence of loans to commercial enterprises. Appleyard (2008) highlights that CDFIs requiring injections of grant funding because they experience controlled and sustained failure. These capital injections come with an attached requirement to measure impacts. The requirement to measure impacts is an agenda imposed upon CDFIs by Government. This impact agenda suggests that some CDFIs may have been captured by the state and that they are being used as a policy tool to ensure viable enterprises are able to access loan finance. The emphasis on impacts that arise as a result of this Government intervention is a

distinctive characteristic of the contemporary political economy of neoliberalism. The next section explores the social policy arena relating to CDFIs.

2.3.2 Social Policy Literature

Neoliberalism is a political-economic philosophy that took shape in the 1970s (see Harvey, 2005; Peck, 2008 for history of neoliberalism) which involves a reorganisation of Government systems and state-economy relations (Peck and Tinkle, 2007:33). Since the 1980s successive UK Governments have adopted neoliberal strategies aimed at the creation of employment opportunities which in turn reduces the reliance on welfare support (Jones et al. 2005; Boas and Gans-Morse, 2009). Liberalism has long argued that markets should be free from intervention by the State (Jones et al. 2005:100). The neoliberal approach involves a shift away from welfare to a policy framework that attempts to make citizens responsible for their own wellbeing.

Governments have embraced the neoliberal philosophy of privatisation and deregulation for the efficiency of the market which has led to a public discourse surrounding the enterprise culture (Storey, 1994). Neoliberalism is not an uncontested term. Boas and Gans-Morse (2009:137) highlight that a problematic aspect of the use of neoliberalism is that the term is often poorly defined and used to characterise an excessively broad variety of phenomena. Neoliberalism has undergone a transformation from a positive label coined by the German Freiberg School to a normatively negative term, often used to denote the reduction of the role of the State through the curtailment of Government

subsidies. At different times Government will want to (or be forced to) adopt a less neoliberal strategy, for example, the bank bailouts during the 2008 credit crunch (NAO, 2014).

CDFIs aim to create social change through the provision of enterprise loan finance in poor communities. Affleck and Mellor, (2006) argue that the nature of this change is ill defined and links the CDFI approach to the neoliberal third way approach which tries to create higher social and financial returns than traditional private investment and public expenditure. The third way approach considers financial inclusion as a means of encouraging enterprise and increasing competition designed to create an active, participatory welfare system (Marshall, 2004; Appleyard, 2008). The UK Government promotes self-employment (Mosley and Steel, 2004) and CDFIs are perceived by the state to be a financial vehicle that can be utilised to stimulate regeneration in deprived areas and promote financial inclusion.

As CDFIs receive and are reliant on public funding, they are accountable and there exists a requirement for them to justify value for taxpayer money. This is a condition that is imposed on them by the State. Accountability is part of the soft neoliberalism of the third way (Peck and Tickell, 2002). For this thesis, the funding and impact relationship that exist between CDFIs and Government funders links CDFIs to the neoliberalism debate. To date CDFIs have been able to attract and retain Government support for the sector. This is due to them effectively managing to demonstrate that they create the desired impacts from their lending activity. They attempt to achieve this in two ways. First, the CDFA

produce a wide variety of reports that allow them to engage with the neoliberal debate. These include Change Matters programme, Inside Out reports and the Annual Survey of UK CDFIs. These reports are there to demonstrate impact and the professionalisation of the sector. This is important because it develops consistency in impact reporting. Second, through the use of consultancy reports. Arguably, reports produced by the CDFA will be biased towards the needs of its members and will not identify or report impacts in a way that undermines the sectors contribution to the economy.

2.3.3 Consultancy Literature

There are a series of expectations attached to the funding that CDFIs receive. Most require some form of impact measurement to justify the expenditure. The sophistication of this impact measurement varies depending on the requirements of the individual funders. The evaluation of the EU Key Loan Fund by consultants Roger Tym & Partners and Enterprise (2002) was the first British attempt at measuring the impacts of CDFIs and concluded that a cultural shift in the provision of finance to social enterprises was occurring (BOE, 2003).

GHK's (2004) *Evaluation of the Phoenix Fund* found that the impact of the Phoenix fund had resulted in a positive impact on the CDFI sector, enabling its development and expansion, and had enabled CDFIs to leverage in additional funding. The borrower impacts focused on the provision of finance to the financially excluded, jobs and businesses created, loans to women and ethnic minorities. An evaluation of Street UK, by the New Economics Foundation (NEF,

2004) identified broadly similar impacts to the GHK (2004). In 2007, NEF produced a further report, with support from the Hadley Trust, to assess whether the CDFI sector had measured up to Government expectations. The findings revealed that CDFIs have managed to leverage in 'millions of pounds of investment' (NEF, 2007) and this leverage has had a significant positive impact on some of the most disadvantaged communities in the UK. All respondents to the report agreed that there is a lack of common performance frameworks or measures and impact is hampered by their limited scale and lack of resources, coupled with the slow growth of individual CDFIs. Whilst these reports found evidence that CDFIs have a strong conviction that they have a positive impact and play a critical role in providing access to finance, little evidence is demonstrated as to what those impacts actually are and no figures were provided within the report.

In 2009, the Department for Business Innovation and Skills (BIS) and the Office of the Third Sector (OTS) commissioned GHK Consulting to undertake an evaluation of CDFIs. The GHK (2010) report evaluated the sector in the context of the Government's access to finance intervention. Its purpose was to inform policy on the strategic medium to long-term role of CDFIs and establish rationales for continued funding of the sector. It illustrates that the idea of job creation remains a strong measure of the success of investment in industry and enterprise, and concluded that: *'Public support for CDFIs should be provided in proportion to the economic and social impact that CDFIs deliver, therefore measuring social impact is key to demonstrating a part of the return on public investment that CDFIs can deliver'* (GHK, 2010).

Government departments (such as BIS) and think tanks (such as NEF) have undertaken consultancy reports. Some reports are forced upon CDFIs who commission them to meet conditions set by funders, for example the evaluation of the *Key Loan Fund 2002*. At times CDFIs themselves commission consultants to produce reports.

Reports Commissioned by CDFIs

In 2005 BCRS undertook a social audit which sought to measure impacts. The audit showed that they had created 20 new jobs and generated an increase of £664,000 in turnover that year. The BCRS audit was an early attempt at impact measurement by a CDFI. In 2006 CWRT commissioned the National Association of Credit Union Workers (NACUW) to undertake an evaluation of their entire organisation following its first year of trading, to assess its initial development phase, evaluate its position within the community finance sector and appraise future opportunities within its marketplace (NACUW, 2006:3). In the social impact section, CWRT measured the conventional current impacts, and included two further categories of additional and new services available in a regeneration area (NACUW, 2006:51).

Collaborations between CDFIs and Academics

In nations with a developed banking system, microfinance has a strong impact on improving borrowers financial resilience but only a modest impact on economic development (Dayson, *et al.* 2010:2). Flexibility is imperative to survival in today's globalised business environment. An organisation's ability to

survive might not generate immediate growth and may in some cases lead to a streamlining of the business's structure or outputs. In the longer term, having a strong business may lead to future growth. The business loan research by Dayson, *et al.* (2010) involved conducting 93 business loan household surveys with borrowers from six CDFIs located across the UK. The research showed that the business-lending sectors reach relatively few beneficiaries but achieve a large margin of socio-economic impact. CDFIs reduce the welfare budget as they help move people from unemployment to employment and self-employment. Dayson *et al.* (2010:8) argue that 'this move from welfare to work represents a welcome institutional innovation.'

The University of Brighton and Capitalise, a CDFI based in Hastings developed the SIMPLE (Social Impact for Local Economies) model. This is a five-step process that involves scoping, tracking, telling, mapping and embedding impacts (Dennis and McLoughlin, 2010). The model focuses on the conventional measures of impact and identifies a few additional impacts. These were: a reduction in long-term unemployment, borrower confidence, hope, self-esteem, and profitability. The impacts on wider society were: economic growth, benefit-spend saved and local tax generated. Impacts on the CDFI were: signposting (referrals) and income generation, leading towards financial sustainability. The SIMPLE model does not mention negative impacts and has not been adopted by the CDFA.

The work by Dayson *et al.* (2010:8) is possibly the only work on CDFIs that briefly acknowledges an impact that could be construed as negative: 'business-

lending sectors reach relatively few beneficiaries.’ However, the report does not provide wider details on this negative impact and instead focuses on the positive aspects surrounding the large margin of socio-economic impact. Not exploring the negative aspects of CDFI lending highlights that this collaboration is like much of the consultancy literature instrumentally driven.

A common theme within the consultancy and CDFI reports is that the impacts identified align closely with the policy objectives originally set out in the PAT 3 report and the Phoenix fund. Currently CDFI impact measurement appears to follow a set routine whereby funders supply CDFIs with finance and this finance has a requirement to measure and report predetermined impacts. CDFIs and the CDFA then either undertake their own evaluations or commission a consultancy firm to do this for them. The reports by BCRS and CWRT were undertaken to achieve specific objectives that were related to justifying support that they had received from their capital funders. As such they were instrumentally constructed to demonstrate only the positive impacts of their activity. To date there has been a limited effort to measure the wider impacts of CDFI lending.

2.4 Research Gap

The gap identified from the literature review relates to a series of constraints on CDFIs. Some of these constraints relate to impact and some relate to CDFI organisational behaviour and processes. CDFIs are constrained in their ability to lend, by their own mission statements, by the way that they are funded and by the impact agenda that is imposed upon them and by some funders preventing

them from lending to certain sectors. In addition to these constraints, the impact agenda and organisational behaviours that occur within and between CDFIs at different moments in time and space forces them to act in a similar ways.

CDFIs are integrated into the mainstream financial system as they leverage funding from government schemes by borrowing additional lending capital from the mainstream banks. By lending to financially excluded individuals they provide those individuals with credit histories which should eventually ensure that they are able to access loan finance from the mainstream financial system (Bryson and Buttle 2005).

A critical question concerning CDFIs is: are CDFIs alternative or mainstream or are they something that is a hybrid? CDFIs operate differently to the mainstream but they still have conditions imposed upon them that can be conceptualised as mainstream constraints. Looking backwards into their supply chain the requirement to leverage the subsidies that they receive from the state links them to the mainstream banks. Looking forward into their client base they are using approaches that are related to viable loans and viable lending, all of which are mainstream in terms of lending.

The only alternative economic space that makes a CDFI an alternative provider of finance is the focus on wider impacts. This focus on wider impacts is the attempt of CDFIs to demonstrate their alternative nature. The primary driver of demonstrating impact is lending to marginalised borrowers that have been declined a mainstream loan. The government will not want to provide a subsidy

to financial institutions that are lending to individuals and enterprises that could obtain loan finance from a mainstream bank. If the Government wanted to do this they could provide the finance directly to the mainstream banks. The marginality of borrowers is the main thing that differentiates a CDFI from a mainstream bank as CDFIs are not lending to non-viable enterprises and there is no intent to lend to non-viable enterprises. If the only alternative part of a CDFI is the focus on impacts then this makes understanding impacts critical.

Impact will have a different meaning for different people and stakeholders within this system at different times. CDFIs, borrowers and CDFI funders will all consider impact in different ways. This includes the individuals within each of those organisations. For CDFIs one meaning of impact will be about developing a case to argue for continued support of the sector and this is achieved by attempting to justify their alternative nature. Impact will have different meanings for individuals working within a CDFI. At board level, impact will relate primarily to the performance of the organisation itself, the means to generate revenue that covers the day-to-day costs associated with running the enterprise. CDFI revenue comes in the form of loan repayment. There is a tension between the impact agenda imposed upon lending and generating sustainable revenue. A secondary board level meaning will be how impact relates to defaults and coping with defaults involves developing a case for continued Government support which links to the impact agenda. Second, at loan officer level impact will relate to generating sufficient loans to justify their position within the CDFI, but also to lending to viable propositions. Third, at administrator level impact will relate to liaising with borrowers and monitoring impacts. For a CDFI funder

impact will be about developing a case to either continue to support or withdraw support for the CDFI sector. This relates to the accountability and the impact audit culture that is a feature of neoliberalism. For a borrower impact will be a hurdle that they need to overcome to obtain a loan from a CDFI.

There are multiple reasons for a need for an analysis that identifies wider impacts of CDFI lending activity. One argument is, as impacts are the only thing that makes a CDFI alternative then there is a requirement to explore the literature relating to Social Impact Analysis (SIA). There is a well developed approach to SIA which also involves undertaking an economic multiplier analysis. If CDFIs are focused on impacts as the primary differentiator that makes them alternative, then why are CDFIs not engaging with SIA and incorporating it as a core practice or central routine of their business?

At the moment CDFIs do not know what their wider lending impacts are other than the core impacts required by funders. There is a tension between accepting loans that have no impacts but are more viable and accepting loans that are less viable but that have wider impacts. CDFIs might not be engaging with SIA for a variety of reasons. Possibly it is too difficult, or it is because they see themselves as lenders first and their primary focus is on lending, or maybe at different times they are content to let central Government do it for them through consultancy reports. Perhaps CDFIs engage in rhetoric that hints at wider impacts at a time when it suits them to try and capture funding.

Exploring the available CDFI literatures relating to CDFIs leads to a requirement to explore some of the wider literature relating to impacts.

2.5 Social Impact Analysis: Monetised Welfare

The term social value can be conceptualised as incorporating social capital as well as the subjective aspects such as an individual's wellbeing, their ability to participate in making decisions that affect them, and the wider impacts on their communities and environment (NEF, 2008; Wood and Leighton, 2010). Welfare economics is a branch of economics that uses economic techniques to evaluate intangible and non-monetary social value impacts. Economic welfare can relate to the level of prosperity, standard of living of individuals, or groups of individuals, and utility (Samuelson, 2004). Welfare can depend on employment, income distribution, labour conditions, leisure time and production (Hueting, 2011). One measure used to assess economic welfare is to calculate Gross Value Added (GVA). This is an output measure of the total value of goods and services produced in an area. Another method is Social Return on Investment (SROI) which enables tangible monetary values to be attributed to intangible non-monetary outcomes (Wood and Leighton, 2010:14; Cox *et al.* 2012). For example, intangible and non-monetary variables such as self-esteem and self-confidence are measurable in a CDFI setting (Vanclay, 2003; Copisarow, 2004). To date, CDFIs have not been required to undertake an SROI by any of their funders. Future funds that CDFIs might wish to access might require them to undertake an SROI. Currently, CDFIs do not have a clear picture of the wider additional impacts that their lending produces.

Hicks and Allen (1934) developed the welfare economic theory on valuation that underpins Cost Benefit Analysis (CBA)⁵ and Social Return on Investment (SROI). This states that the value of a good or service is subjective and should reflect the utility that people derive from it, where utility refers to the notion of underlying welfare or wellbeing. In other words, a monetary value should reflect the change in an individual's utility or wellbeing due to them experiencing or consuming the goods or services (Hicks and Allen, 1934). Within an SROI welfare or wellbeing would be categorised as impacts.

NEF and the SROI Network have driven the development of SROI in the UK (Cox *et al.* 2012). SROI is increasingly used to measure value for money. It does this by attempting to identify and quantify social change and monetise that change rather than focussing just on any economic change (Heady, 2010; Cox *et al.* 2012). SROI differs from other forms of analysis as it involves the stakeholders in identifying the benefits that are to be measured. This ensures that the measures reflect variables that matter to stakeholders (Cox *et al.* 2012). Social outcomes can be valued using financial proxies allowing for the calculation of an investment return ratio. The ability to quantify and value intangible benefits is a key requirement of SROI. Yet, estimating the financial or monetary value of variables that are not intrinsically financial in nature is problematic (Heady, 2010; Cox *et al.* 2012).

⁵ Cost benefit analysis is an approach used to calculate the benefits of a project, decision or Government policy.

Considering the intangible impacts of CDFIs, this raises a number of questions. For example, how do you financially value social variables such as increases in educational capital, increases or decreases in stress, wellbeing, consumer satisfaction or the value of referrals? How can the value of some of the intangible impacts that CDFIs already partially report such as ethnicity and gender be measured? What is the opportunity cost

Considering intangibles, two alternative concepts considered to explore CDFIs and impacts were game theory and microeconomics. Game theory is used in economics to explore competing behaviours between interacting individuals and groups (Shubik, 1978). The opportunity cost of not exploring game theory in greater detail relates to additionality and displacement. Impacts might have occurred regardless of whether a loan was made. It is conceivable that borrowers and CDFIs might engage in behaviours that could be linked to game theory. Some borrowers might exaggerate possible impacts to obtain a loan. Some impacts might have occurred regardless of whether a CDFI loan was made. CDFIs might overestimate impacts to justify continued support of the sector or to justify lending to less marginal enterprises as a way of balancing the risk within their loan portfolio. Microeconomics is a branch of economics that can be used to study the behaviour and decision-making that occurs between individuals and enterprises when allocating resources (Demirguc-Kunt and Maksimovic, 1998). The focus on behaviour and decision-making at the point of the allocation of resources provides the justification for not utilising microeconomics. This is because there are a series of routines and processes before, during and after a

loan event. A loan results in an ongoing relationship between a CDFI and borrower.

To understand the routine processes behind CDFIs the next section explores the concepts of evolutionary economics and the role of routines and path-dependency on organisational decision-making and impact measurement.

2.6 Evolutionary Approaches: Routines and Path-dependency

Evolutionary economics is part mainstream economics as well as a school of economic thought which has defined itself as a radical alternative to mainstream economics (Friedman, 1998:432). Its origins can be traced back to evolutionary biology (Laurent and Nightingale, 2001). Evolutionary economics differs in its approach to evaluating mainstream economic phenomena such as complex interdependencies, competition, growth, institutional change and resource constraints (Minniti and Lévesque, 2008:607). Evolutionary economics emphasises the adaption processes of individuals interacting through specific economic institutions and it is these processes that can transform firms (Friedman, 1998:423).

The evolutionary economic concepts used to explore CDFIs are routines and path-dependency. Linked to path-dependency and routines is the concept that processes occur as a result of the historical decision-making of an enterprise or individual. These concepts provide a basis for exploring how the internal and external forces that drive impact measurement are influential in driving

organisational behaviours of CDFIs. The influence of these forces will fluctuate at different times depending upon the policy environment and wider macroeconomic environment.

2.5.1 Routines

One central construct that has emerged from evolutionary economics has been the concept of routines (Nelson and Winter 1982; Becker 2004). Routines can be defined as ‘a pattern of behaviour that is followed repeatedly, but that is subject to change if conditions change’ (Winter 1964:263). Routines can be typified as patterns, repetitive, persistent, collective, non-deliberative and self-actuating, processual, context-dependent, embedded, specific, and path-dependent (Becker 2004). Routine behaviour is easier to monitor and measure than non-routine behaviour (Langlois 1992:104-5). Nelson and Winter (1982) proposed routines as the unit of analysis in evolutionary economics, allowing an understanding of how the economy changed. In their framework, the unit of analysis has to factor in three questions: (i) how variation comes about (ii) how selection takes place and (iii) how what has been selected in one period is transmitted to the next period (Nelson and Winter, 1982). Our understanding of routines is still incomplete as there has been little progress on what routines are (Cohen *et al.* 1996). There is a ‘need to continue to improve our understanding of routines and their effects on organisations’ (Becker, 2004:663). Evolutionary economics accepts that routines can be idiosyncratic to an organisation or group of organisations (Nelson 2002; Frenken and Boschma, 2007). There may be

routines within a CDFI or with their portfolio of clients that are particular to that organisation or group of organisations.

Many economists focus on the purpose behind routines and their effect on performance (Langlois 1992; Abell, et al. 2008). However, a routine can be defined as an everyday practice. Considering the organisational behaviour of an enterprise enables the concept of routines to be explored through the medium of practice. Within an established CDFI there are three primary routine practices. The first is attracting potential borrowers, the second relates to the lending process and the third is the process of attempting to attract funding required to maintain the CDFI. Behind the three primary routine practices there is a subsidiary routine relating to developing the case to support the primary practices. CDFIs attempt to achieve this by measuring and reporting impacts.

Within an organisation routines will be developed on the macro-political level and will constitute a compromise between different internal stakeholders (Nelson & Winter, 1982). For a CDFI, organisational routines will be established based on the different formal and informal power of those involved in undertaking practice. For example board members, senior managers and loan officers will all be involved in developing practice. These different stakeholders will have different expectations of what constitutes performance and practice and their beliefs will influence the strategic development of routines. For a CDFI there will be an added complexity that results as a consequence of the impact agenda. This complexity is that part of CDFI practice is a routine that is developed externally. There are additional external routines that sit outside the

CDFIs control. These are also important for CDFIs. These external routines relate to expectations of organisations such as BIS and their attempts to measure impacts. For example at times a CDFI will be expected to engage in a consultancy process.

There are differences between practice, performance and loan performance. For a CDFI loan performance will relate to how effective they are at managing to tackle the information asymmetry issue in the lending process, and this will be measured by the level of defaults. Performance will include not only how effective they are at lending to produce a loan that performs, but also how effective they are at working towards their own missions and goals. The primary goal of a CDFI is lending to financially marginalised enterprises.

The perception is that routines are useful, (Langlois, 1992; Cohen *et al.* 1996; Becker, 2004) but they can also have a political context. How effective CDFIs are at managing to develop routines will influence how successful they will be at engaging with the policy aspect that frame and shapes their sector. The additional practices and routines that CDFIs have to develop in response to different expectations of impact and performance may be a burden that prevents CDFIs from focusing on their core activity of lending. This in itself is a negative impact on the CDFI, local economy and for the state.

Routines that are developed to meet the different requirements of internal and external stakeholders can prevent change when they become 'locked-in' through

path-dependence (Martin and Sunley, 2006). The concepts of path-dependency are explored next.

2.5.2 Path-dependency

The concept of path-dependency postulates that decisions made in the past can influence current or future decisions, even when those historical decisions or circumstances may no longer be relevant. The term path-dependency entered the economics lexicon in the 1980s and early 1990s (Martin and Sunley, 2006:1), after David (1985, 1986, 1988) and Arthur (1988, 1989). David (1985) highlighted that technologies that are first to market can become entrenched and focused his work on the economic history of technology, whereas Arthur (1988) focussed on self-reinforcing, non-linear economic processes. The path-dependency model can be used to illustrate how early standards become entrenched due to the legacy that they built up over time. There are four stages to a basic path-dependence model; pre-formation, path creation, path lock-in, and path dissolution (Sydow *et al.* 2005; Martin and Sunley, 2006:5). The early David-Arthur work on path-dependence has been criticised for failing to provide satisfactory explanations about how inefficient processes emerged or became locked-in (Stack and Gartland, 2003), or about the pre-formation stage and how paths break up and dissolve (Sydow *et al.* 2005).

Path-dependency can be useful to help understand how previous decisions made by CDFIs, such as, to access certain types of funding, or to operate in certain ways targeting certain groups, ultimately impacts on their ability to make new

decisions. These previous decisions lead to constraints in the CDFIs ability to make additional or wider impacts within their local communities. Similarly, path-dependency can also be used to understand some of the adaptation and decision-making processes that occur in borrower enterprises which lead to them obtaining a CDFI loan. Linked to the notion of routines becoming entrenched is the idea that an entrenched routine will spread between embedded networks of organisation that operate in similar fields. The homogenisation of processes or structures that occurs in enterprises, operating in the same or similar sectors and markets, is referred to as 'isomorphism' (DiMaggio and Powell, 1983). Isomorphism is explored next alongside the concept of embeddedness.

The concept of path-dependency is an appealing concept for understanding policy environment as it provides a label for the empirical observations and policies that can be difficult to change or reform. Path-dependency is not an uncontested concept. Raadschelders (1998:576) criticism stating: 'it is only by virtue of retrospect that we are aware of stages or paths of development.' This implies that the concept cannot be used for to explore current or future phenomena. This is not unique to path dependency. Retrospective exploration of phenomena is used by other concepts in social science.

Whilst traditional literatures view isomorphism as placed in the firm, this thesis contends that isomorphism, blended with embeddedness, can also be placed outside of the firm. The theory can then be used to explain how external forces

that are imposed on CDFIs through the embedded relationships that they are involved with results in them becoming ever more homogenised.

2.7 Embedded Isomorphism

The origin of embeddedness dates back to work undertaken by Karl Polanyi (1944:61) who stated that 'economic exchange in systems [is] based on reciprocity, where acts of barter are embedded in long-range relations implying trust and confidence.' Granovetter (1985:487) expanded on embeddedness highlighting that social ties influence economic exchanges. The embedded concept of economic action within the broader institutional and social environment is now widely used by economic geographers (Halinen and Tornroos; 1998; Taylor and Asheim, 2001; Hess, 2004, Lee, 2006; Lee, *et al.* 2008; Amin and Thrift, 2007). The embedded concept relates to the social, cultural and political context that firms operate in and within which economic activity is dependent. Previous research into embeddedness has helped to develop our understanding of how social structures affect economic life (Uzzi, 1997:35). Some of the inter-firm embedded networks research includes work on industrial districts (Leung, 1993; Lazerson, 1995), marketing channels (Moorman *et al.* 1992), immigrant enterprise (Portes and Sensenbrenner, 1993), entrepreneurship (Larson, 1992), organisational adaptation (Baum and Oliver, 1992; Uzzi, 1996) and lending relationships (Podolny, 1994; Sterns and Mizruchi, 1993; Abolafia, 1996).

CDFIs are embedded within a community in which information and practice is transferred between organisations as part of a community of practice (Wagner, 2008). They develop relationships with other CDFIs during their formation, and maintain those relationships through involvement with the CDFA. In 2005, the West Midland CDFIs formed the Fair Finance Consortium (FFC), an organisation that exists to develop the relationships between the West Midland CDFIs.

2.7.1 Isomorphism

Despite CDFIs being independent organisations that have their own individual mission statements and goals they often act in similar ways. The concept of isomorphism (DiMaggio and Powell, 1983) helps to explain why conventions which are created and imposed on organisations, often results in the homogenisation organisations. In the case of CDFIs, the conventions relate to the impact agenda imposed upon them by external funders, and the expectations that they place on themselves through their own mission statements.

Isomorphism can be institutional or competitive. Competitive isomorphism relates to rivalry between enterprises, as each seek for advantage over resources and market share and there is a natural progression towards institutional isomorphism, where firms are aware of what other firms are doing (Tuttle and Dillard, 2007; DiMaggio and Powell, 1983; Hannan and Freeman, 1977). Thus, 'organisations [then] compete not just for resources and customers but for political power and institutional legitimacy; for social as well as economic fitness' (DiMaggio and Powell, 1983:150).

The relationship between firms and isomorphism is usually contextualised as endogenous. Within this thesis, embedded isomorphism is predominantly contextualised as, forces that impact on CDFIs daily operations due external pressures exerted on CDFIs from the macro environment. This lens for embedded isomorphism is useful for exploring how external constraints and inter-firm networks influence impacts and processes. To understand the routine processes behind CDFIs and start to explore the context of some of the impact variables the next section explores evolutionary economics and the role of routines and path-dependency on organisational decision-making.

DiMaggio and Powell (1983) identify coercive, mimetic and normative mechanisms as three drivers which trigger isomorphic change. Coercive drivers relate to the political and legal context of organisations. Mimetic drivers relate to the competitive or standard responses that firms take in reaction to uncertainty. Normative drivers relate to conformance demands which can be formal, through regulations, or informal, through guidelines that are not compulsory but that augment principles of best practice. Government, clients and stakeholders often apply pressure that drives performance (Tuttle and Dillard, 2007).

In a CDFI context embeddedness relates to isomorphism due to the sources of funding that CDFIs access and due to the requirement for CDFIs to produce impacts. The relationship between firms and isomorphism is usually contextualised as endogenous. Because CDFIs are involved with multiple communities of practice, and some of the stakeholder groups are influential in dictating which impacts should be measured and reported, CDFIs do not fit fully

into any one of the three types of isomorphism. This suggests that there is another type of isomorphism that can occur and that there would be some merit in thinking about isomorphism in a different way.

Within this thesis, embedded isomorphism is contextualised as, forces that impact on CDFIs daily operations due to external pressures exerted on CDFIs from the macro environment. This lens for embedded isomorphism is useful for exploring how external constraints and inter-firm networks influence impacts and processes. The isomorphism that occurs in CDFIs is defined as 'embedded isomorphism' and occurs due to the context within which CDFIs operate including pressures occurring from different stakeholders and communities of practice (Wenger, 2008) as well as some of the routine behaviours that occur as a result of different internal and external pressures.

2.8 Conceptual Framework

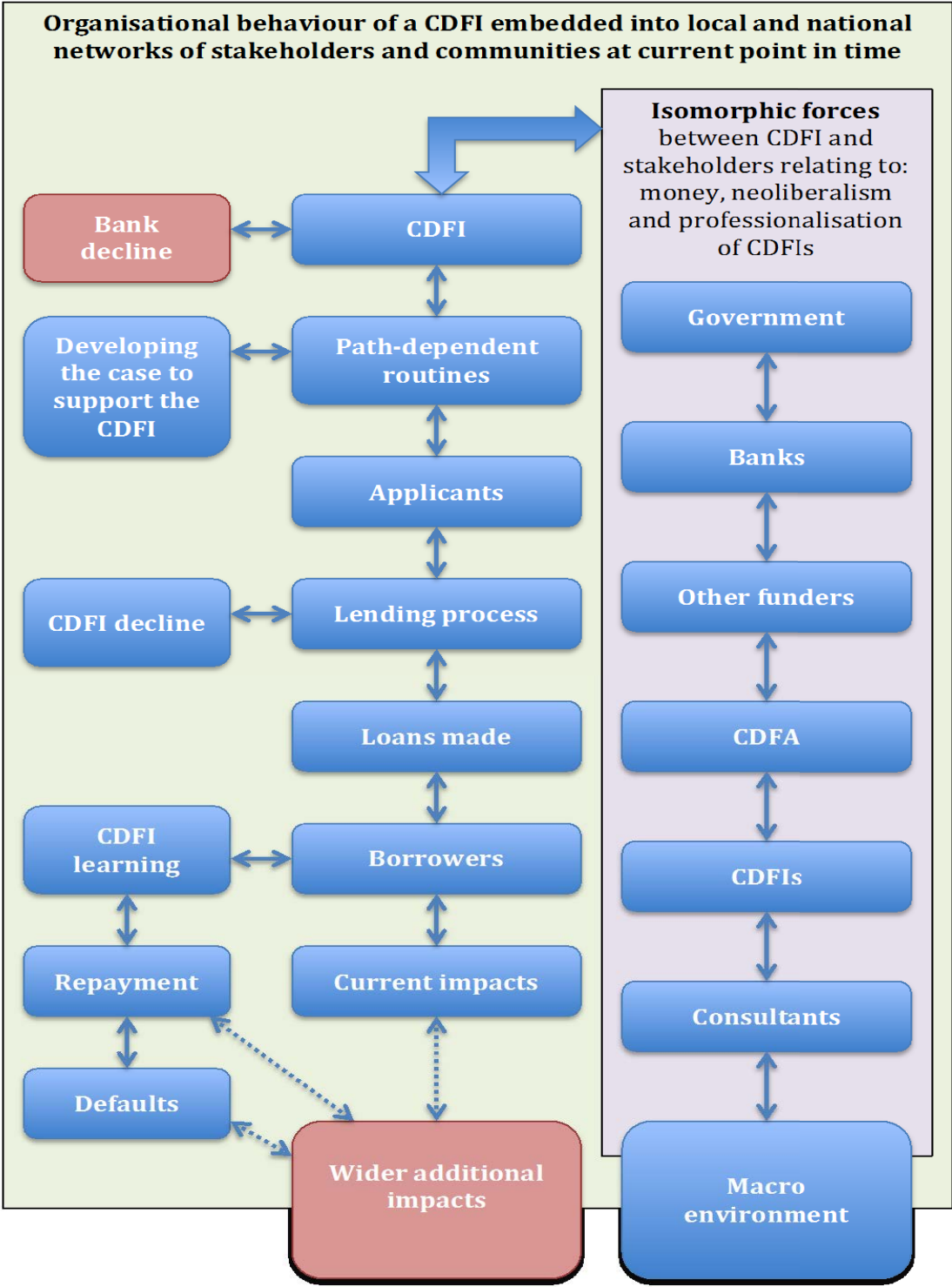
This chapter has explored literatures on CDFIs, social policy and consultancy reports relating to CDFIs. These highlight that much of the research has been focused on CDFIs as lenders and not on the borrowers and impacts that arise as a result of lending. Much of the work has been instrumental in that it has been produced to achieve a predetermined outcome. Exploring the literature enabled the identification of the research gap which relates to a series of constraints on CDFIs due to their organisational behaviour and a requirement placed upon them to produce and report impacts.

The literature on social impact was explored to develop an understanding of wider impacts and some of the concepts that influence the decision-making processes of enterprises. The evolutionary economics literatures on path-dependency and routines were examined alongside the lenses of embeddedness and isomorphism. These provide a series of conceptual tools that can be used to understand a CDFI, its borrowers and environment that has emerged to support CDFIs. These ideas form the organisational theories that are used to create a supporting framework for the empirical chapters.

There are three distinguishing features of CDFIs. They are small scale, borrowers have to be declined by the mainstream banks and there are wider impacts in addition to the economic impacts that arise as a result of lending. These features combine to imply one thing which is that CDFIs are not sustainable. They are targeting particular types of enterprise that are financially marginal and this leads to a requirement for a continual subsidy into a CDFI. To justify this continued subsidy, there is a requirement for an evidence base of wider impacts linked to the politics of who controls the impact agenda at different points in time. The impact agenda is sometimes controlled by the Government, sometimes controlled by the CDFA and sometimes controlled by a CDFI. The literatures highlight that: Whitehall attempt to control the impact agenda, the CDFA responds to this by trying to produce a professional approach at industry level and that each CDFI is competing against other CDFIs for national funding. They try to do this by attempting to demonstrate that they produce wider impacts than other CDFIs. To understand these wider impacts there is a need to

understand the drivers and relationships that exist between a CDFI and the local and national networks and communities in which they operate (Figure 2.1).

Figure 2.1 Community of Practice and CDFI Impact Agenda



CDFIs obtain their own capital with finance from Government, mainstream banks, not for profit foundations and charities. The nature of CDFI funding results in them being embedded into mainstream financial services and networks of stakeholders. This is because CDFIs leverage their loan portfolios by themselves borrowing from mainstream banks and this leverage is a requirement of the Government funders of CDFIs. This results in external and internal embedded isomorphic forces which affects their ability to operate and generate impact. The embedded isomorphism results in CDFIs developing routines as part of their organisational behaviour. Some of the routines found in CDFIs relate to processes and some relate to impacts. Some CDFI routines are idiosyncratic. Routines and path-dependence illustrate how CDFIs can become locked-in to routine behaviours, such as accessing certain sources of funding, and subsequently measuring certain impacts.

2.9 Conclusions

The most common measures of impact adopted by CDFIs are jobs created and saved and businesses created and saved. Yet these measures do not fully measure the wider impacts of CDFI activity. Measuring the effects of a CDFI outside the standard policy driven measures is problematic. One of the primary issues relating to CDFIs is that there are constraints placed on them by external funders and by their own mission statements. Some of these constraints relate to impact.

CDFIs sit within different arenas: collectively as a policy tool, as social enterprises run locally, as small financial institutions that are part of the mainstream financial system, because they borrow from mainstream banks to leverage their portfolios, and as lenders. The lending aspect is the differentiator that means that a CDFI is part of an alternative economy in the way it is an additional provider of loan finance. The justification for this alternative position is the provision of loans to borrowers declined by the mainstream banks as part of a policy agenda based on wider local economic, social and environmental impacts. It is the impact agenda and its political construction that makes CDFIs interesting. However, the research on impacts has either been instrumentally driven by an evaluation consultancy agenda to support CDFI activity, or has tended to focus on CDFI interpretations of impacts rather than research on borrowers. There is also an assumption that all CDFI impacts are positive.

For CDFIs a primary concern is obtaining flows of external finance to support their loan book and another primary concern is covering revenue costs. This requires a flow of loans to viable enterprises but also to enterprises that technically are unable to borrow from a mainstream bank. The primary measures of a CDFIs impact for the CDFI are: sustainability of the CDFI in revenue terms and finance to lend. Measuring wider impacts is of secondary interest over a concern with loan viability based on targeted lending. For the loan officer there is a tension between making loans and lending to create wider impacts other than economic impacts. This suggests that CDFIs have developed routines within their lending process to cope with these tensions and to reduce information asymmetry.

3 METHODOLOGICAL CONSTRUCT: CONSTRUCTING AND VALIDATING A FRAMEWORK FOR IMPACT MEASUREMENT

3.1 Introduction

This chapter outlines the research methodology that was used to explore the existing process of impact evaluation, develop an initial typology of possible impacts that could be used to evaluate the impacts of CDFI enterprise lending, and test the typology of impacts through the collection of empirical data from multiple sources. It summarises the research approach used to explore the wider impacts of CDFI lending and the lending characteristics of CDFIs, and outlines the analysis techniques used to identify the relationship between impacts and which impacts could be used to explore the wider impacts of any CDFI.

Section 3.2 provides an overview of the research design and processes. It briefly outlines the macroeconomic conditions present during the research. Section 3.3 outlines the selection and recruitment of the CASE partners for the research. Section 3.4 outlines the construction of the impacts framework and illustrates the contents of the framework. Section 3.5 details the five stages in the CASE files phase. Section 3.6 provides a detailed account of the contents of the borrower interviews and lending officer questionnaires that were used to explore impacts and the CDFI lending approaches. It incorporates methodological considerations relating to how the data were analysed. Section 3.7 concludes with a summary of how the research process helped inform the research aims.

3.2 Research Design

There were a number of key considerations that were reviewed and used to inform the research design. The overall design was a comparative case study of the CDFI lenders and CDFI borrowers.

Comparative research identifies and compares two or more groups on one or more variables, and case studies involve descriptive or exploratory analysis of institutions using a variety of methods. Johnson and Christensen (2008:406) define case study research as ‘research that provides a detailed account and analysis of one or more cases.’ Comparative case studies can combine both qualitative and quantitative methods to compare two or more organisations, with the aim of identifying patterns and global trends for businesses and sectors. Bryman (2008) illustrates that we can understand social phenomena better when they are compared to two or more meaningful cases (also see Shinn, 2008). In this way, the research was a comparative case study approach of how the lending activities of ART, BCRS, CWRT and Impetus produce local social, economic and environmental impacts. Decisions are predominantly the major focus of case study research (Yin, 2003) covering questions such as, why they are taken? How they were implemented? What was the result (Schramm, 1971)?

In this research, the case studies explore the drivers behind existing measures of impacts and the results of using them. The research was also exploratory in nature, using mixed methods to explore the additional impacts of the lending activities of the four West Midlands CDFIs, and investigating the relationships between different variables. Exploratory research reduces the risk of missing

important variables that might have a real effect on the study. The analysis of current impacts addresses what has happened, and could be classified as descriptive. This research has a strong qualitative element. Its cross-sectional design entails the collection of data from multiple cases at a single point in time to produce quantitative and quantifiable data in connection with multiple variables that can be examined to detect patterns of association (Bryman, 2008, Neuman, 2014:44).

The language of cross-sectional design places this approach firmly in the quantitative tradition. Bryman (2008) illustrates that cross-sectional research can also be qualitative. Grounded theory is an analysis approach used to explore qualitative data that involves the discovery of theory through the analysis of data (Corbin and Strauss, 2008). Bryman (2008) illustrates that it aims to generate theory from data by achieving a close fit between the two. Initially data is collected using a variety of methods. The data is coded and analysed to produce a series of concepts or beliefs from which a hypothesis can be constructed. Grounded theory approaches used in the data analysis of the interview transcripts included open coding, axial coding and iterative theory building (Strauss and Corbin, 1990; 1997). This research developed by producing a typology of impacts in the form of an impact framework. Creswell (2003:23) argues that 'qualitative approaches allow room to be innovative and to work more within researcher designed frameworks.' From the framework, interview questions were constructed that could be tested. Borrower data were then collected from loan files, borrower interviews and lending officer questionnaires. This resulted in a qualitative and quantitative data set that was analysed using

both qualitative and quantitative methods linked to inductive reasoning. Inductive reasoning seeks to supply a strong evidence base for conclusions (see also Arthur, 1994). Conclusions can only ever be probable based on the evidence given. The next section details the research process.

3.2.1 Research Process

The research fieldwork was undertaken in four main phases (Table 3.1). The research process commenced with initial scoping meetings held with the Chief Executive Officers (CEOs) from the project's CDFI CASE partners. The scoping meetings provided an initial introduction into the activities of CDFIs. The second phase involved developing an impact framework. This was undertaken in conjunction with the CDFI partners. The framework phase involved a number of creative stages, some of which were aimed at engaging the CDFIs with the research and some that involved conceptualising the possible impacts of CDFI activities. The third phase involved validating and refining the framework against the CDFI files, developing the borrower interview questions, identifying the borrowers that were to make up the sample and collecting the research sample background data from the loan files. In the fourth phase, interviews were undertaken with CDFI borrowers. In conjunction with the borrower interviews, survey questionnaires were developed and conducted with five CDFI loan officers. The schedules of CDFI meetings and loan officer questionnaires are shown in Appendix (9.2 p.327) and schedule of borrower interviews in Appendix (9.3 p.328).

Table 3.1 The Four Research Phases

Phase	Description	Main activities undertaken
Phase 1	Scoping meetings	CDFI Backgrounds CDFI Impacts and measurement process CDFI Lending Processes
Phase 2	Framework	Analysis of scoping meetings Creative mind maps Blue-sky thinking* Focus groups
Phase 3	CASE files	Content analysis of files Testing file content against framework Develop borrower interview questions Sampling strategy Collect background borrower data
Phase 4	Interviews	Undertake borrower interviews Develop lending officer questionnaire Undertake lending officer questionnaires Collect lending officer background data

Note. *Blue-sky thinking is the activity of trying to identify new ideas.

The research commenced on 05 May 2011 and ended on 26 September 2013. Scoping meetings were held with CDFI CEOs between 09 May 2011 and 18 January 2013. CDFI borrower interviews were undertaken between 03 March 2013 and 15 August 2013. CDFI loan officer questionnaires were conducted

between 09 July 2013 and 26 September 2013 (Appendices 9.2 p.327 & 9.3 p.328 for schedules of meetings, interviews and questionnaires). Interviews were undertaken with CDFI borrowers for loans made to borrowers between 2004 and 2013. Within this period, the majority of loans had been made between 2011 and 2012. That the majority of the borrowers loans had been made between these dates reflects that many of the borrowers interviewed had loans which were either still ongoing or that had recently been repaid. As such the relationship between these borrowers and the respective CDFI was still current, and this facilitated their willingness to participate in the research.

3.2.2 The Macroeconomic Environment

A brief Political, Economic, Socio-cultural, Technological, Environmental and Legal (PESTEL) analysis (Griffiths and Wall, 2011:352) of the macroeconomic environment that has existed during the course of the research provides context to the conditions faced by CDFIs and borrowers between 2010 and 2013.

The political factors during the course of the research include, the 2010 general election, which saw the end of 13 years of Labour rule and the formation of a Conservative and Liberal Democrat coalition Government. A programme of major spending cuts to the public sector followed as Whitehall attempted to cut the deficit and lead the UK out of recession (Taylor-Gooby and Stoker, 2011:4). The political impacts on CDFIs and on SMEs include the closure of RDAs and their replacement with Local Enterprise Partnerships (LEPs) and new policies aimed at stimulating economic recovery and growth such as the formation of

Enterprise Areas and new rounds of RGF funding, in 2011, 2012 2013 (Ward, 2015). Another political consideration has been the Governments interest in promoting business. Lord Young's report (2012:7) examined whether the right conditions and support were available to enable the current and next generation of entrepreneurs to build and sustain successful businesses. He argued that if entrepreneurialism was as embedded into the British mentality as it is in the United States, there would potentially be 900,000 more jobs in the UK (Young, 2012:9). Two of the areas explored were support for young entrepreneurs and access to finance. The first resulted in the launch of Start Up Loans UK in 2012 (HMG, 2012). The second highlighted a need for promoting awareness of 'alternative' or 'additional' providers of finance, such as CDFIs (Young, 2012:7).

The research has been undertaken at a time of economic uncertainty that has included the 2008 credit crunch and Euro crisis. The global economic environment has resulted in the continued withdrawal of the mainstream banks from the SME lending market as lending practices have been tightened. The base interest rate has remained low, yet despite this, the cost of borrowing has increased significantly (Cowling et al. 2012:779). SMEs have struggled to access finance and compete in local and global markets. On a national scale CDFIs have seen the impact of this through increased applications (CDFA, 2011; CDFA, 2012a; CDFA, 2013).

Some of the socio-cultural factors considered are employment, opportunities that exist to create new firms, and how low barriers to entry facilitate new firm formation. The ONS (2013) illustrates that between April 2012 and April 2013,

432,000 new jobs were created. Conversely unemployment reduced by only 88,000 during the same period. Immigration, students entering the workforce or high redundancy rates are three possible explanations for this discrepancy between jobs created and unemployment. Changes in the way that people live and work, results in increased opportunities to undertake business activities that service different markets. A growth in leisure culture provides opportunities to form new firms to service this demand. Service firms often have low capital barriers to entry (Bryson *et al.* 1997:349). Low barriers to entry into the labour market and diverse culture are two factors that facilitate the influx of human capital, which promotes innovation, accelerates information flow, and leads to higher rates of new firm formation as people switch to self-employment (Lee *et al.* 2004:2).

The technological factors relating to CDFIs consist of the emergence of new technologies that allow borrowers to access capital in new ways. Alternative online lenders can have positive or negative impacts on borrowers. The Internet continues to alter the way we live and work. Borrowers not only have greater than ever access to information on alternative forms of finance, but access to new markets, new sources of supply and manufacture. The lending environment has seen a huge increase in alternative providers to both personal and business clients (Collins *et al.* 2013; Zang *et al.* 2014). These alternative providers compete against mainstream banks and CDFIs for clients. Following the 2008 credit crunch, mainstream banks in the UK now face a far tougher regulatory legal environment. Two regulatory bodies, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), have replaced the Financial

Service Authority (FSA). Through this tougher regulatory environment, banks have been pushed to undertake two contradicting activities; firstly to recapitalise and build reserves, and second to lend more to enterprise. Having briefly considered the macro environmental context of the research, the CASE studentship, ethics, selection of the CASE partners and initial scoping meetings, are outlined in the next section.

3.3 Phase One: The CASE Studentship, Ethics and Initial Scoping Meetings

'The second half of the nineties saw many organisations formed across the UK with the objective of being not-for-profit providers of finance to small businesses. The West Midlands was in the forefront of this and remains one of the best-resourced regions in terms of CDFI support for small businesses' (HMG, 2009).

ART has strong links with the University of Birmingham, having previously worked with a Masters student and part-funded a PhD studentship. Initiating and supporting academic research has helped to keep ART and the West Midlands at the forefront of CDFI policy development. Accordingly, it was ART and Professor John Bryson that initiated this Economic and Social Research Council (ESRC) Collaborative Awards in Science and Engineering (CASE) studentship. ART anticipated a need to continue academic research to improve impact measurement by CDFIs as a way of ensuring continued public funding. The CASE studentship afforded access to confidential financial files, contact with CDFI borrowers and loan officers. ART was able to offer introductions to contacts

within the CDFA which is the trade association for CDFIs. Prior to the start of the PhD, ART facilitated access to three further West Midland based CDFIs, BCRS, CWRT and Impetus. The additional CASE partners were recruited to enable the research to cover a larger geographical location and to explore a wider range of enterprises and impacts. The research followed the ten core principles outlined in *the CDFI Code of Practice 2012* (CDFA, 2012b) that UK CDFIs observe. With regards to collecting data and contacting CDFI borrowers the research followed the more academic ethical considerations comprising the six core principles outlined in the ESRC Framework for Research Ethics. These cover topics including, the integrity of research, ensuring participants are fully informed, confidentiality, voluntary participation, safeguarding participants and the independence of the research (ESRC, 2012).

Having an accurate audit trail helps demonstrate dependability in qualitative research (Bryman, 2008). At the start of the research, five scoping meetings were undertaken. Four were held with the CEOs of the West Midland CDFI CASE partners. The meetings were informal in nature but were recorded and transcribed, and individual files for each CASE partner were kept. During these meetings information was collected on the CDFI backgrounds, their structure, types of borrowers, lending process, how they are funded and how they collect and report current impacts. Copies of the CASE partners Articles of Association and Memorandum of Association were collected along with Annual Reports and

marketing literature. An additional group meeting was held with two industry experts where CDFI impacts were discussed in detail ⁶.

3.3.1 How the CASE Partners are Representative of UK CDFIs

The four West Midland CDFI CASE partners provide finance to excluded enterprises from large industrial cities through to small rural populations. Whilst UK CDFIs have their own missions, they all provide loans to those who are fully or partially financially excluded from mainstream finance. *Inside Community Finance* (CDFA, 2012a) illustrates that in between 2010 and 2011, the West Midlands accounted for 15% of the 1500 loans issued to businesses and 5% of the 293 loans to Civil Society. By value of loans made this represents 18% of the £23 million lent to business and 7% of the 145 million lent to Civil Society ⁷. The West Midlands is arguably a microcosm of the UK in that they both have a wide and diverse range of enterprises and a diverse and multi-cultural population. The ONS (2013) shows that the region has a population 5.6 million this being 9% of the UK total. Both have enterprises that range in size from global multi-nationals through to micro enterprises. Both have areas of social deprivation and high wealth. Of the 52 members listed by the CDFA, the four CASE partners comprise 7.69% of UK CDFI population. Whilst broadly similar in their mission, the four CASE partners each operate independently as not-for-profit organisations accessing different funding schemes. Each offers different sized loans to borrowers. ART and BCRS both offer enterprise loans from £10,000 to

⁶ A former CDFI CEO now at the CDFA and an impacts expert from the University of Brighton.

⁷ Three large specialist CDFIs account for 94% of the Civil Society lending.

£100,000, CWRT offers loans from £250 to £75,000 and Impetus £1,000 to £50,000. The West Midlands CDFIs contribute to local and national policy through their involvement with Local Authorities and Councils, their procurement of funds from national schemes such as RGF and their involvement with the CDFA Change Matters programme (CDFA, 2013). The construction of the impacts framework phase is examined in the next section.

3.4 Phase Two: Construction of the Impacts Framework

There are well-developed measures that relate to economic multiplier analysis, yet none have been applied to the impacts of CDFIs. The current impact measures are politically driven due to the nature of the Government funding that CDFI receive. Following the scoping meetings with the CDFIs, phase two began with the systematic construction of an impacts framework to provide a model of the impacts that ought to be present from the lending activities of CDFIs. A framework can be defined as a basic structure underlying a system, concept or text. The impacts framework was in the form of an Excel spreadsheet that was created and refined between May 2011 and June 2012. It was constructed from a series of meetings with the CEOs of the four West Midland CDFIs. Meetings were also held with two industry experts on the impacts of CDFIs. Supplemented with structured questions and focus groups, data from the meetings were synthesised with a comprehensive literature review of academic and grey literature to identify five categories of impact (Figure 3.1).

Figure 3.1 Five Categories of Impact

- Impacts that existed and were currently used by CDFIs
 - Impacts that were partially used by CDFIs
 - Impacts that were recorded but not reported upon by CDFIs,
 - Impact measures that CDFIs thought could be used as impact measures
 - Impact measures that were completely new
-

The academic literature relating to CDFIs was reviewed spanning 1996 to 2014 (Hulme and Mosely, 1996; Evers *et al.* 1999; Copisarow, 2000, 2004; Vanclay, 2002, 2003, 2006; Buttle, 2005, 2007; Bryson and Buttle, 2005; Derban *et al.* 2005; Affleck and Mellor, 2006; Appleyard, 2008, 2011, 2013; Dayson *et al.* 2010; Dennis and McLoughlin, 2010; Fuller *et al.* 2010; Ravoet *et al.* 2010). In addition, consultancy literature relating to social and economic impact of CDFIs was reviewed. This included all of the available reports from the CDFA since its incorporation in November 2000 (CDFA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014), evaluations undertaken by CDFIs (BCRS, 2006; CWRT, 2006) and key reports (BIS, 2010a, 2010b, 2011, 2012, 2013; BOE, 2003, 2004; GHK, 2004, 2010, 2013; NEF, 2004, 2007, 2008).

The creation of the framework was necessary to facilitate the organisation and categorisation of CDFI impacts identified from the scoping meetings, files and literature review. It was used to critically review impacts and to develop the borrower interview schedule and loan officer questionnaire. The framework contained 15 columns each with a main heading (Table 3.2).

Table 3.2 Construct of the Framework

Column	Heading	Contents
A	Descriptor	Brief outline of impact
B	Details of impact	Detailed description of the impact
C	Type of impact	Existing, part used, collected, possible, new
D	Character	If the impact is positive, negative or both
E	Reference	How the impact was identified
F	Critical comment	Critical comments of impact
G	Research measure	How the impact could be measured
H	Measurement difficulty	Easy, medium, hard
I	Themes of impact	Social, economic, environmental
J	Selected to test	Yes / No
K	Reason if not selected	(Various)
L	Collected file data	Yes / No
M	Borrower interview	Links to borrower interview questions
N	Questionnaires	Links to lending officer questionnaire
O	Notes	Any additional notes required

3.4.1 Contents of the Impacts Framework

From the meetings with the CDFIs and the initial review of the loan files, the framework consisted of 80 possible impact measures that provided the basis of the questions used for the empirical data collection. The creation of the impacts framework in conjunction with the CDFIs identified the typology of five types of impacts (existing, partially used, collected, possible and new) that were relevant

to the CASE partners and grounded in academic theory. The analysis of the data reduced the five types of impacts into three different tiers. These are, policy derived impacts; impacts that are side-lined by the policy impact arena and a whole series of other impact measures grouped into three further themes. These being, impacts that are possible, impacts that are possible but too expensive to measure and impacts that are not really possible to measure in any meaningful way, but that could be collected. The tiers of impacts are analysed and explored in detail within Chapters Four and Six.

3.4.2 Summary of the Framework Phase

The creation and development of the framework was an iterative process with continued refinement. The framework allowed the research to progress in two ways. First, it provided a series of measures that could be validated and tested against the CDFI borrower loan files and secondly in conjunction with data gathered from the loan files it allowed the development of the borrower research interview questions. Of the 80 measures in the framework, 73 were tested either through the collection of file data, the borrower interviews or from the lending officer questionnaires. Seven measures were not tested. This was due to perceived difficulty in obtaining the necessary data, either through time, cost, accessibility or the difficulty in constructing a measure to test. For example, testing future credit worth of borrowers was constrained by time and cost and testing the education of mainstream lenders would have required access to the mainstream banks. In the next section, the loan files, validation of the

framework, the development of the interviews questions, sampling strategy and borrower background data collection are explored.

3.5 Phase Three: CASE Files

The CASE files phase enabled a process of familiarisation with the loan files and the opportunity to validate the impacts framework against the file data. During this phase the borrower sampling and enterprise background data were also gathered in preparation for the interviews phase. By reviewing the files of CDFI borrowers against the framework, it was possible to check the measures of impact that the CDFIs currently collect but do not record. This allowed for the identification of other possible measures of impact that had not been identified during the consultation with the CDFI CASE partners and recorded on the initial impacts framework.

The CASE files phase consisted of five stages. The first stage involved a familiarisation process with the composition of the files to become accustomed to their structure and content. The second stage involved exploring and validating loan files against the impacts framework. The third stage involved developing a series of interview questions linked to the framework in preparation for the empirical data collection. The fourth stage involved sampling and identifying the borrowers that made up the research sample. The fifth stage involved collecting the background file information along with client contact details from the sample borrowers.

3.5.1 Stage One: The Composition of the Loan Files

This section describes the physical characteristics of the CDFI loan files and discusses the similarities and differences between them. The loan files varied depending on how complex the lending process had been and on the length of the relationship lending between the CDFI and borrower. The ART, CWRT and Impetus files were predominantly paper based and kept in filing cabinets alphabetically. Some were large with multiple files for each application and loan. These files contained a wealth of supplementary information. Other files by comparison were relatively small.

The files contain a wide breadth of information that can be categorised into five types, these being; forms, governance, correspondence, supplementary information and previous loan files. The borrower application forms and the CDFI lending assessment forms provided the largest quantity of data. The lending assessment forms contained details on the perceived impacts of the loan at the time for lending along with the lending officer justification for lending. Information within the governance category included the mainstream bank decline letter, lending agreement, proof of identity and copies of documentation relating to security where security or guarantees are held. Correspondence data included letters and copies of emails relating to the application and the ongoing management of the loan. This information provided an illustration of the ongoing relationship between the CDFI and borrower. It identified other parties such as bankers, solicitors and accountants. Supplementary information was varied. Examples include, product brochures, fliers and marketing information, business plans, client case studies, details of patents, copies of press clippings either

relating to CDFI or to enterprise. Finally, where borrowers have had multiple loans, this information is contained as separate files within the main loan file. The application process is explored in Chapter Seven page 293.

Enterprises that have had several loans have files that contain a wealth of information reflecting the long relationship between CDFI and borrower. In contrast to ART, CWRT and Impetus, BCRS choose to send file data electronically. Here two main types of information were sent, these being the lending application form and loan appraisal form. These documents provided extensive information in a succinct manner that made collecting data easy. An example of this can be described using borrower dates of birth as an example. In the paper based files a manual search was required for a proof of identity document such as a passport or driving licence, whereas in the electronic forms the date of birth was in the same place every time. In summary, the files provided an informative insight into history of the enterprise and the borrower's experience of accessing CDFI finance.

3.5.2 Stage Two: Validating the File Content against the Impacts Framework

To test the impacts framework and familiarise myself with the file content, nine ART loan files were randomly selected. These comprised three ongoing, three repaid and three defaulted loans. A new framework was constructed with the descriptors from the framework as headings. Using this each file was examined and information that could be identified against the metrics contained in the framework was recorded. This was accomplished by indicating the presence or

absence of an impact or by noting a brief description of the impact, for example recording whether the borrowing was for capital expenditure or working capital. The validation of the measures helped to inform the interview questions development for the empirical data collection stage in a number of ways. The files provided an indication of the types of enterprises that could be contacted, the amounts of funding that enterprises were borrowing and the different reasons that they had for borrowing. Having gained an understanding of the file content and validated the borrower information against the impact metrics contained within the framework, the next stage involved developing a series of questions for the borrower empirical data collection phase.

3.5.3 Stage Three: Developing the Borrower Interview Questions

Lenihan (2004:229) argues that 'evaluation should consider what would have happened in the absence of assistance and that one way to achieve this is to consider the twin concepts of deadweight and displacement.' Evaluation studies often ask respondents questions that indicate whether in the absence of assistance they would still would have undertaken the particular project or activity anyway (McEldowney, 1997:184). In addition to this, McEldowney (1997:184) contends that 'this type of approach is an overly simplistic one, especially when considering the complexity of some decisions' taken by organisations. In addition McEldowney (1997) argues that although the concepts of deadweight and displacement have much validity, it is in their application and treatment that problems and challenges occur. For this reason the borrower interview questions were developed containing more detailed probing questions

that could be used to explore some of the concepts around additionality. Despite this, some of the possible impacts identified in the conceptual framework were considered to be too difficult or marginal to include in terms of being able to collect data, cost and time. For example, conceptually providing a CDFI loan may impact on a borrower's competitors; but measuring this as an impact would be too difficult. The borrower interviews are discussed in detail in Section (3.6). Impacts can be positive or negative. Defaulted loans can produce positive impacts. Borrowers who start an enterprise that subsequently fails will have produced positive and negative impacts that can be recorded. These might be personal to them, such as enhanced skill sets that allow them to be more employable or that allow them to start a successful enterprise at a later date. Additionally they can be multiplier impacts or spill over benefits, such as the provision of training to staff at the failed enterprise that makes those staff more employable. Alternatively, they might have produced a viable product or innovated something that is successful elsewhere. These types of issues were considered during the development of the borrower interview questions.

The impacts that could be tested using borrower interviews covered ten themes (Table 3.3). These themes had emerged from the framework that had been developed in partnership with the CDFIs and linked to literature on academic theory and literature on CDFIs. Thus, they served as the basis for the research borrower interview question development.

**Table 3.3 Themes Identified from the Framework used to Develop the
Borrower Interview Questions**

Themes	Framework descriptor
Borrower background	Narrative
	Experience
	Entrepreneurialism
Enterprise activity	Green environment
	Social venture
	Service to local community
	Businesses mentorship
	Networks
	Customers
	Major clients
	Changes in strategy
	Exporting
	Knowledge transfer
	Commercial premises

Themes	Framework descriptor
Finance experience	Funds levered in by transaction Bankability Future impacts Financial competition
Purpose and use of funds	Business created Turnover saved Survivability Local supply chain support National / global supply chain Research and Development - Innovation General wealth creation, national / local Support to capital expenditure Near market impact Recycle effect of old machinery
Importance of loan	Business saved Timing of the loan Speed of loan delivery
Impact on employees	Up-skilling through training Sweat wage – family unpaid Unpaid work Training Apprenticeships Links educational establishments

Themes	Framework descriptor
Social impacts	Jobs created
	Jobs saved
	Areas supported
	Education of small business community
	Benefit spend saved
	Circulation of funds in community
	Corporate / income tax generated
Personal impacts	Attitudinal impacts
	Increased personal wealth
	Wellbeing / health
	Effect on family
	Change behaviour
	Confidence – self esteem
Satisfaction and referrals	Referrals
	Borrower satisfaction
	Image of CDFI
	Embedded relationships
All themes	Social Return on Investment
	Negative impacts (default and firm failure)
	Business changing hands
	Enterprise location

3.5.4 Stage Four: Sampling Strategy, Participation and Borrower/SME

Characteristics

This section outlines the processes used to select and recruit the research participants and provides details on the characteristics of the sample. The sampling strategy used was representative, targeting borrowers with loans that fell into the three categories, ongoing, repaid and defaulted. Ongoing borrowers were defined as a borrower with a current loan and with no repayment issues at the time of the data collection. In these cases an ongoing borrower may have had a number of previously successful loans or multiple current loans at the time of interview. Repaid borrowers were defined as a borrower who had successfully repaid their loan or loans and who had no currently active loans. Defaulted borrowers were defined as a borrower that had failed to make three loan repayments and the CDFI had written off the loan and was not chasing for any further payment. When a borrower fails to make repayments, CDFIs will engage in a process that attempts to reschedule the loan. A firm that has defaulted on loan repayments is not necessarily a failed firm and may continue to transact business. Given that relationships between borrowers and lenders tend to breakdown when loans default, the CDFIs were asked to indicate defaulted borrowers that they thought would still be contactable. To ensure that relationships between the CDFIs and borrowers were not damaged by the research, borrowers that were experiencing payment issues or who were being chased for the collection of bad debts, were to be excluded from the research. Excluding these borrowers will have slightly decreased the validity of the research. The defaulted categories became a fuzzy area with some borrowers revealing during the course of the interview, that CDFIs were either still chasing

funds or receiving token payments. In these cases the debts had been written off the CDFI books, but were still having an impact on the former borrowers. Additionally, some borrowers revealed that they were experiencing repayment issues at the time of interview.

The selection of borrowers varied between CDFIs and involved liaising and negotiating with each CDFI. Borrowers from ART were selected at random and the selected borrowers then had to be agreed with the CEO at ART. During this process two borrowers were identified that ART did not want to be included in the sample. One was excluded as it had been extensively researched due to the success of the enterprise. The other (related to a defaulted loan) was excluded due to new information arising during the selection process, which put it outside the selection definition for defaulted borrowers. Excluding these two borrowers did not result in any selection bias, and the remainder of the ART loan book was open to sampling.

BCRS borrower data is held electronically. Here borrower files were selected at random and an administrator at BCRS emailed the data to me. CWRT failed to provide data when first requested due to confusion by an administrator over whether they were allowed to release client borrower information. This issue meant that there was limited scope to randomly select borrowers from files and selection was instead undertaken at random by their lending officer. Whilst this might indicate the potential for selection bias, the lending officer interviews later revealed that the lending officer had no prior knowledge of two borrowers. Borrowers from Impetus were selected at random, although similarly to ART, the

selected borrowers required approval from the Impetus CEO to prevent any over exposure of clients to a research process. In the case of Impetus none of the selected borrowers were excluded from the sample.

Previous research by Appleyard (2008) and Buttle (2005) indicated that CDFIs have strong relationships with clients undertaking relational style banking. Initially the sample size was 80 borrowers and was designed to produce between 50 and 70 interviews. During the course of the data collection process the sample size was increased to 120 borrowers. This was due to difficulty in contacting borrowers that had defaulted on their loan. The over exposure of certain CDFI borrowers to research, cost and time were the limiting factors in the sample size. From the sample 60 interviews were conducted each lasting on average 30 minutes (Table 3.4).

Table 3.4 Sample Size and Participation

CDFI	Number in sample	Number interviewed	Response rate
ART	40	22	55%
BCRS	20	8	40%
CWRT	20	10	50%
Impetus	40	20	50%
Totals	120	60	50%

CDFI borrowers were recruited by telephone. Attempts were made to contact every borrower from the sample of 120 and there were four reasons for borrowers not participating in the research (Table 3.5).

Table 3.5 Non Respondents

Reason	Number	Percentage
Un-contactable	28	23.33%
Invalid contact details	19	15.83%
Declined to participate	12	10%
Exception	1	0.83%
Total	60	50%

The most common reason was not being able to contact some borrowers. These un-contactable borrowers had either been contacted and had agreed to participate at a later date (and were then unavailable at future dates, or did not return messages left on answering services), or were un-contactable due to gatekeepers blocking access to them. In the context of this research gatekeepers are other employees or partners of borrowers that had answered the telephone. Multiple attempts were made to contact these borrowers, although consideration was given to the number of attempts made to contact these borrowers, so as not to increase their agitation.

The second common reason was that borrowers were un-contactable due to the CDFI loan files containing invalid contact details. The telephone numbers for these borrowers had been disconnected. This was particularly true for borrowers whose loans had defaulted and this highlights that the CDFIs had lost contact with these borrowers. Only 12 of the sample declined to participate in the research and all but one provided a reason. Of these, six explained that they

did not have the time to participate; three stated that personal circumstances prevented them from participating and two felt they did not wish to participate due to the breakdown of their relationship with the CDFI. Finally, there was one exception; a borrower that was running two companies (each with a CDFI loan from different CDFIs) that had previously been interviewed during the course of this research process.

Table 3.6 Participation Rates by CDFI and Status of Loan

CDFI	Status of loan	Sample size	Number interviewed
ART	Ongoing	19	14
	Repaid	14	5
	Defaulted	7	3
BCRS	Ongoing	10	5
	Repaid	6	1
	Defaulted	4	2
CWRT	Ongoing	10	7
	Repaid	6	2
	Defaulted	4	1
Impetus	Ongoing	19	12
	Repaid	14	7
	Defaulted	7	1
Totals		120	60

Of the 60 borrower interviews, 54 were undertaken by telephone. Undertaking the majority of the interviews by telephone facilitated the research process, as borrowers were dispersed over a wide geographical area within the West Midlands. They were also more convenient for borrowers as they enabled a flexible approach to the timing of interviews. For example, some borrowers preferred to arrange the interview in the evenings or during the weekends due to them being short on time during business hours. Some borrowers preferred to undertake the interview in person; so six interviews were conducted face-to-face. There are a number of positive and negative differences between telephone and face-to-face interviews. Advantages of conducting interviews in person are that they allow the researcher to observe borrower body language such as hand gestures, facial expression, modesty, smiles and frowns. They are also easier to steer and control and it is easier to check understanding as body language works both ways. Conversely, conducting research in person means that time and costs are increased. It also has the disadvantage that not all participants feel comfortable meeting researchers in person (Bryman, 2008:198). Whilst it can be more difficult to observe borrowers reactions via telephone interviews there are steps that can be taken to ensure that one is still able to assess non-verbal behaviour. For example listening to the tone of voice, the pitch and pace, spoken mannerisms, laughter and choice of words of the participants, comprise telephone body language all of which can be recorded and used in the same way to inform interviews. Once a borrower agreed to participate, permission to record the interview was obtained from them. The interviews were recorded digitally. The 60 borrower interviews were transcribed in full and their combined word count was 185,356 words.

The transcribed borrower interviews were initially coded into an Excel spreadsheet under 57 headings. Data such as number of employees were recorded numerically. More detailed responses such as the enterprise activity or sector were narrowed down to a series of lists. These ranged from lists with a simple as a no / yes option, through to longer more detailed lists. The purpose of transforming the data in this way was to start to convert the detailed qualitative interviews into data that could be interpretable using quantitative data analysis methods. The lists, made easier to visualise and data log numerically. An example of this transforming of data was where the borrower described their feelings at length about the cost of the CDFI loan ultimately it was a positive, negative or neutral feeling that they were expressing.

The CDFI borrowers interviewed were engaged in running enterprises that covered a wide variety of sectors. These ranged from manufacturing and service businesses to social enterprises and Churches. They varied in size, the smallest operating enterprises being sole traders, and the largest employing 50 staff. The differences between the borrower enterprises are representative of the diverse economy that exists within the West Midlands. They also demonstrate the diversity of CDFI lending (Table 3.7).

Table 3.7 Characteristics of Borrower / SMEs Participants (n=60)

SME Characteristics	ART	BCRS	CWRT	Impetus	Total
Existing business	18	7	4	14	43
Start-up	4	1	6	6	17
Manufacturing	9	3	3	8	23
Service business	13	5	7	12	37
Closed or defaulted (0 employees)	5	2	0	2	9
Sole trader (1 employee)	1	1	1	2	5
Micro business (2-9 employees)	6	3	5	10	24
Small business (10-49 employees)	9	2	4	6	21
Medium-sized (50+ employees)	1	0	0	0	1

Enterprises are owned and run by a variety of different people. CDFIs lend to viable business propositions. Rightly, they do not restrict loan capital on the basis gender, ethnicity, nationality or age. As such the data set included borrowers representing all of these categories (Table 3.8).

Table 3.8 Borrower Characteristics (n=60)*

Borrower characteristics	ART	BCRS	CWRT	Impetus	Total
Male	16	4	8	14	42
Female	6	4	2	6	18
Caucasian	17	7	10	19	53
BAME	5	1	0	1	7
British national	18	8	8	15	49
Foreign national	4	0	2	5	11
Aged under 30	2	0	0	1	3
Aged 31-40	0	0	2	6	8
Aged 41-50	6	2	5	6	19
Aged 51-60	7	3	2	3	15
Aged 61+	6	1	1	4	12

Note. *(n=57) for Ages of borrowers

3.5.5 Stage Five: Borrower Background Data Collected

The final stage of the case files phase involved the collection of borrower information in preparation for the interview phase. From the files 37 data points were collected and coded into a new Excel framework (Table 3.9).

Table 3.9 Borrower Information Captured from Files

No	Descriptor	Definition of descriptor
1	CDFI	Name of CDFI
2	Enterprise	Name of enterprise
3	Category	Category of loan, ongoing, repaid, defaulted
4	Borrower	Name of borrower
5	Gender	Gender of borrower
6	Position	Position of borrower within enterprise
7	Telephone	Contact telephone numbers of borrower
8	Email	Email address of borrower
9	Location	Location of enterprise
10	County	County of enterprise
11	Amount	Loan amount
12	Fees	Fee charged
13	Interest	Interest rate charged
14	Duration	Duration of loan in months
15	Payment	Monthly repayment amount
16	Repayable	Total repayable based on application
17	Cost	Cost of borrowing
18	Purpose	What the loan was to be used for
19	Start-up	If the enterprise was a start-up
20	Year	Year of loan
21	Number	Number of loans
22	Sector	Which sector enterprise

No	Descriptor	Definition of descriptor
23	Activity	Details of enterprise activity
24	Impacts	Impacts claimed on application
25	Security	Details of security if held
26	Current	Current status of loan
27	Due	Year due to repay
28	Jobs created	Claimed on application
29	Jobs saved	Claimed on application
30	Total jobs	Claimed on application
31	Indirect jobs	Claimed on application
32	Turnover	Turnover of enterprise at application stage
33	Ethnicity	Ethnicity of borrower
34	DOB	Date of Birth
35	Age	Current age of borrower
36	Nationality	Nationality of borrower
37	Decline	Reason for mainstream bank decline

Within this new framework, borrower contact details, enterprise background information, loan details and impacts mentioned on the application and lending assessment forms were recorded. Information obtained during this stage supplemented the research data by providing information that may have been impractical to obtain during the interviews. Examples of this were the age and ethnicity of the borrower, financial information that the borrower may not have had readily available during the interview, such as the interest rates or loan

charges. The file data also acted as a triangulation point allowing for interview data to be compared to the application. Identifying the cases involved liaising with each CDFI. The borrower loan files, whilst containing broadly similar information, were organised differently by each CDFI. ART, CWRT and Impetus maintain paper-based files whereas BCRS stores information electronically. Access to file data was different for each CDFI. ART, CWRT and Impetus allowed full and unlimited access to detailed paper files. BCRS provided copies of detailed electronic files.

The case files allowed the research to progress to the next stage, the borrower and lending officer interviews, by providing sample data and the borrower contact details. The next section details the fourth research phase, the interviews.

3.6 Phase Four: Interviews

This section outlines processes involved in conducting the borrower interviews and loan officer questionnaires. The fourth phase consisted of three stages. These were the initial semi-structured in-depth pilot interviews with CDFI borrowers,⁸ the main empirical data collection semi-structured interviews with borrowers and the structured questionnaires with the loan officers from the CDFIs that issued the loans.

⁸ Borrowers are defined as the individual who signed the loan agreement at the time of application.

3.6.1 Pilot Interview Process

The borrower interviews were undertaken in two steps consisting of the initial pilot interviews and the main empirical data collection interviews. Pilot interviews were conducted with three borrowers between 3 March 2013 and 4 March 2013. These interviews were undertaken with borrowers from two CDFIs (ART and Impetus) and included two ongoing borrowers and one repaid borrower. Two of the interviews were undertaken by telephone and one borrower requested that the interview take place face-to-face. Conducting the pilot interviews was a useful process that rapidly helped to increase understanding of the type of language to use with borrowers, both at the recruitment stage and during the course of each interview. It facilitated future participant recruitment and the smooth running of subsequent interviews.

The pilot interviews enabled the interview question schedule to be altered slightly. It identified that the question relating to the importance of the loan needed to be adapted to each borrower depending on the background and circumstances of their CDFI loan. Considering the circumstances of each loan highlighted the importance of adopting a sensitive approach when undertaking in-depth interviews with borrowers, particularly with borrowers that had defaulted on their loan obligations or that had closed their enterprise following the successful repayment of the loan. The final interview schedule consisted of 20 main questions each of which had additional prompting questions to be used if required (Appendix, 9.4 p.331).

3.6.2 Semi-structured Borrower Interview Development

This section provides an account of how the questions were formulated. The borrower interview schedule explored nine themes: borrower background, enterprise activity, finance experience, purpose and use of loan funds, importance of loan, impact on employees, social impacts, personal impacts and satisfaction and referrals.

Borrower background

The three borrower background themed questions explored the personal story, previous experience, location, commute and entrepreneurialism of the borrowers. For the purpose of this research an entrepreneurial borrower is an individual who forms or runs an enterprise. Borrowers were initially asked about their background and how they came to be involved in the enterprise. The open-ended nature of the first question was designed to ease the borrowers into the interview and get them talking. Suggested probing questions included asking about their former post, reason for leaving, whether this was the first enterprise they have been involved with, how many enterprises they were involved with and depending on how the mood of the interview whether they had taken a reduction in income to start their own enterprise. Additionally, borrowers were asked whether they live and work within the same community and how far they travelled to work to identify whether they had a long commute. This was coded into SPSS using a binary scale of 'long commute' (no = 0 / yes = 1). Entrepreneurialism was measured using a Likert scale of 1-10 (with one being at the lower end of the scale and ten being the highest).

Enterprise activity

The enterprise activity themed questions explored the core activity undertaken by the borrowers enterprise, its interaction with other enterprises, the local community and whether it played a role in helping others. Borrowers were initially asked about the operations undertaken by their enterprise. Probing questions revolved around the enterprises aims, its clients and if they had a major client, purchases made from suppliers, their locations and if they had a major supplier and whether there had been any major developments in recent years. Borrowers were asked whether they had any involvement in helping other enterprises or individuals to improve their business or to obtain finance. Probing questions included asking about involvement with networks or other trade groups and whether they had referred anyone to a CDFI. The borrower responses to the enterprise activity themed questions could be transformed into SPSS by asking a series of closed questions within the analysis that related to the framework impacts illustrated in Table 3.3. These could then be coded into SPSS using a binary scale of (no = 0 / yes = 1).

Finance experience

There were three main finance themed questions; exploring the borrowers experiences with mainstream bank lending, other alternative lending and CDFI lending. Borrowers were asked about their experience of accessing external finance. Responses were coded individually into SPSS which enabled common themes to emerge. These were then coded into a binary scale of (no = 0 / yes = 1) by asking closed questions in relation to the themes. Probing questions included why there was a need for the finance, when the need arose, why the banks

declined to lend and what other sources of funding were considered or used. Borrowers were asked about the sequence of events that led to them receiving the CDFI loan. Later in the schedule, borrowers were asked whether having the CDFI loan had allowed them to access finance from the mainstream banks. Where common themes emerged from the thematic analysis of the transcripts, variables were coded into SPSS using a binary scale of (no = 0 / yes = 1).

Purpose and use of funds

Two questions explored the purpose and use of the CDFI funds. These explored the achievements borrowers felt arose from the lending, the importance of the loan and how critical the timing of the loan was. Borrowers were asked what the loan had enabled them and the enterprise to achieve and whether it had positively or negatively impacted on their enterprise. Later in the schedule they were asked how important the loan was for the enterprise. A probing question asked whether they thought, that without the loan, the enterprise would have started or whether they would still be trading. Responses were coded into SPSS using a binary scale of (no = 0 / yes = 1).

Impact on employees

Two main questions explored the context and role of employees within the enterprise and the impacts of the lending on them. Themes included whether any family members were involved in the enterprise and in what capacity, if staff were trained and how, and if the enterprise benefited from unpaid or minimally paid work. Borrowers were initially asked about the people involved in the enterprise. Probing questions asked about the number of employees and

whether any of the borrowers family members had an official or unofficial involvement in the enterprise and whether they were paid for that involvement. Later in the interview, borrowers were asked about staff training and whether the loan resulted in them providing education to new or existing staff. Where training had occurred, borrowers were asked to provide details. Probing questions were included whether the enterprise provided any apprenticeships, internships, mentoring schemes, unpaid work or learning schemes. These were coded into SPSS using a binary scale of (no = 0 / yes = 1).

Social impact

One question asked the borrowers directly about social impacts. This was to see how closely the borrowers thoughts correspond to the CDFI missions. Borrowers were reminded that CDFIs lend to achieve a set of social objectives and outcomes. They were then asked if they could describe some of the social impacts that resulted from their CDFI loan. Where necessary, borrowers were prompted using jobs created or saved as an example. Individual responses were coded into SPSS on a scale, which enabled common themes to emerge. These were subsequently coded into a binary scale of (no = 0 / yes = 1) by asking closed questions in relation to the themes. Initially, probing questions included whether they felt under pressure to employ people or save jobs to be a successful applicant. After the first couple of interviews it quickly became apparent that the borrowers did not feel pressured to create new jobs and this particular probing question seemed to cause a break in the flow of the interviews. The semi-structured interview schedule was amended and this probing question was dropped.

Personal impact

One main question explored the personal impacts of the lending. This question covered themes including wellbeing, family and income. Each of the themes that emerged from the responses to these questions were transformed into SPSS asking a series of closed questions that could be coded into SPSS using a binary scale of (no = 0 / yes = 1). Borrowers were asked what impact has the CDFI loan had on them, their family and home life. A number of probing questions followed that explored the impacts of the loan in more detail. These included the impact of the loan on their income, whether they had spent longer hours away from home than in their previous role and whether any changes had impacted on family members and in what way. They were also asked if family members helped them by undertaking unpaid or minimally paid work such as admin, typing, packing products or delivering fliers, and responses were coded into SPSS using a binary scale of (no = 0 / yes = 1).

Satisfaction, referrals and ending the interviews

Satisfaction and referrals were measured using four main questions. Firstly, two Likert scale questions were asked that measured the borrower satisfaction with the CDFI loan and lending process. Borrowers were asked, on a scale of 1-10 (with one being not happy at all and ten being completely happy), how happy they were with the CDFI loan and how happy they were with the CDFI application process. To measure referrals, borrowers were asked how they were introduced to the CDFI. An earlier probing question from the enterprise activity themed questions had asked if they had referred anyone to a CDFI, and coded into SPSS using a binary scale of (no = 0 / yes = 1). The penultimate interview

question asked the borrowers if they had any other issues relating to the CDFI, the loan or the impacts arising from the loan that they would like to discuss. This gave borrowers the opportunity to raise any points that might have been missed during the interview and also signalled to borrowers that the interview was concluding. The final interview question thanked the borrowers for their time and asked if they had any questions either about the interview or the research.

Borrower interviews were logged in the excel borrower information spreadsheet and detailed notes were kept for each borrower. This included a record of contact attempts and notes on the outcome of each telephone call. Details for the borrowers that declined to participate or who were non-contactable were recorded. The log recorded the dates and times of successful interviews, the duration of each interview along with individual word counts for transcriptions. In conjunction with the excel log, an electronic diary was used to flag up scheduled telephone appointments and arrangements to call borrowers back at convenient times.

3.6.3 Borrower Interview Process

Following the initial pilot interviews no major issues were identified with the semi-structured interview schedule. A further 57 borrowers were then interviewed between 5 March 2013 and 15 August 2013. These comprised of 36 ongoing borrowers, 14 repaid borrowers and seven defaulted borrowers. After 24 interviews had been completed, the end of the Tax Year and Easter holidays created a natural break in the data collection process as borrowers were willing

to participate but less able to due to time constraints. At this stage the completed interviews were transcribed and reviewed and an additional question was added which asked borrowers to rank on a scale how entrepreneurial they considered themselves to be. The participation rate from the initial 24 interviews provided an indication that the sample size was too small and the sample size was increased from 80 to 120 borrowers. Increasing the sample size will have had a minor impact on the validity of the sampling strategy.

The research was designed to understand the impacts of CDFI lending on the borrowers. This made them either the sole owners or senior shareholders within the enterprise. As such, in many cases, gaining access to borrowers involved speaking to gatekeepers (such as other enterprise employees and partners of borrowers) and negotiating access. Here the ability to use the CDFI name in conjunction with the University name acted to breakdown initial barriers to entry. Informed consent was obtained and borrowers were made aware that they could withdraw from the research process or terminate the interview at any point. Permission was sought to record the interviews for analysis. All of the borrowers were assured that the information that they provided would be properly safeguarded and that they would remain anonymous. The framework served as the basis for the research interview question development. Semi-structured in-depth interviews were designed with a number of aims. These were to gain an understanding of the borrowers, their enterprise, requirement for finance, the impacts of the CDFI loan and their satisfaction with the loan. Adopting a semi-structured approach to the interviews retained flexibility for topic divergence (Kvale and Brinkman, 2008) allowing the interviews to be

exploratory. Initial questions were designed to ease the borrowers into the interview process and to encourage them to open up and talk. Purposefully keeping the initial topics broad allowed borrowers to identify specific issues relating to their enterprise (Holstein and Gubrium, 1995). Borrowers were asked about their backgrounds leading to their current involvement with the enterprise.

Following this the activities undertaken by the enterprise and its interaction in the community were explored. This involved asking about borrowers, suppliers and major developments within the enterprise over the last three years. Borrowers were then asked to talk about their experience of mainstream lending and their requirement for alternative finance including other alternative lenders. Borrowers were asked how they were introduced to the CDFI, what they used the loan for and what it enabled them to achieve. The interviews then moved on to explore the impacts of the loan. Questions relating to employees, family members, education and training were asked. Borrowers were asked about the social impacts that they think came from having a CDFI loan, how important they felt the loan was for them, whether they would have survived without it. The interview then looked to explore the impacts of the loan on the borrower, their family, home life, income levels and wellbeing. Borrowers were asked whether the loan had enabled them to access mainstream lending. The questions then looked to explore the borrowers level of interaction within the community. They were asked if they lived and worked in the community, their length of commute and whether they had any involvement in helping others access to finance through networks. The interviews closed by asking three scaled questions

regarding their satisfaction with the loan, satisfaction with the application process and how entrepreneurial they considered themselves to be. A final closing question gave them the opportunity to mention any other impacts that had not been mentioned that they thought were relevant to research. Borrowers were thanked for their time and offered the chance to ask any questions.

In addition, borrowers were offered an executive summary of the research findings. During the borrower interview process three borrowers made specific requests regarding participation. Two requested copies of the transcribed interview. These were sent as soon as they had been transcribed and no further feedback was received. One borrower in a face-to-face interview requested that his financial controller be present during the interview.

Borrowers who participated by telephone primarily undertook the interview while at their place of business. Three interviews were conducted while the borrowers were travelling. This was at their request as they indicated that this unproductive time was the only suitable opportunity to undertake the research. The six borrowers that requested the interviews take place in person were split two each from ART, CWRT and Impetus. These face-to-face interviews were conducted at the borrower's place of business and were held in either office or boardroom settings.

Individual questions that arose in the borrower interviews and lending officer questionnaires make analysis harder as they are not comparable to other responses within the sample. Nevertheless, asking individual questions can be

rationalised. Within the context of this research some impacts are unique to the borrower being interviewed and should be recorded to provide a true representation of CDFI impacts. Individual questions that explore the current impacts that occur as a result of CDFI lending were necessary to achieve the research aims.

3.6.4 Lending Officer Questionnaires

Questionnaires were undertaken with five loan officers from ART, CWRT and Impetus between 28 May 2013 and 16 September 2013. The aim of the questionnaires was to provide the third point of triangulation between loan files, borrowers and loan officers, and to explore the relationship between the lending process and routine lending activities of the CDFI loan officers and impacts.

First, initial meetings were held with each loan officer and a questionnaire was completed that obtained the loan officer characteristics (Appendix, 9.5 p.333). These showed that the loan officers come from varied backgrounds; two previously worked in the mainstream commercial banking sector, another had previously worked in credit control for the automotive industry, one had worked for a charity and one worked in engineering. It is unlikely that loan officers from the 53 CDFIs in the UK all come from a mainstream banking background.

Second, during the initial meetings the loan officer worked through a pro-forma questionnaire that was to be completed for each borrower that had participated in the research. These were structured questionnaires containing 24 main

questions. The questionnaire afforded the opportunity to ask any individual questions that may have resulted from the borrower interviews. They also gave the loan officers the opportunity to add any additional points that they thought were noteworthy. The questionnaires were developed from the framework and from the initial assessments of the completed borrower interviews. They were designed to be quick and easy for the loan officers to complete, and also easy to code into SPSS. Questions provided tick lists of options with space to indicate details of any missing option (Appendix, 9.6 p.336). Blank questionnaires were left for the loan officers to complete. Once complete, a suitable time was arranged to review each completed questionnaire with the lending officer to ask any borrower specific questions and fill in any blanks. The final borrower interview transcripts and lending officer questionnaires were filed in pairs making each borrower case easy to locate.

The five loan officers from ART, CWRT and Impetus completed 50 questionnaires. Ten questionnaires were unachievable, eight due to BCRS being otherwise engaged and unavailable to participate and two due to a lending officer from CWRT leaving the organisation and the current lending officer only having a limited knowledge of those borrowers. The borrower background loan file data, borrower interview responses, lending officer characteristics and borrower specific loan officer questionnaires were coded into SPSS, resulting in 453 variables that could be analysed.

3.6.5 Data Analysis

The mixed methodology research approach produced a data set that was both qualitative and quantitative. The analysis reflects the mixed methodology approach and the data analysis combined qualitative and quantitative approaches. Multiple data sources not only provide additional information but also enhance the validity of research (Yeung, 2003). Triangulating qualitative and quantitative data allows for greater credibility and robustness of research (Baxter and Eyles, 1997:512). Qualitative analysis highlights complexities that would not be identified through quantitative investigation (Schoenberger, 1991).

This section outlines which type of analysis was used to inform each chapter and how those approaches worked together. The scoping meetings with CDFI CEOs produced qualitative data that highlighted how CDFIs currently collected and reported impacts. The analysis of these meetings is used in conjunction with the quantitative data from the CDFA Annual Reports (2012; 2013; 2014) in Chapter Four to explore current impacts. Exploring current impacts provides a contextual basis that enables an analysis of the wider impacts of CDFIs in subsequent empirical chapters.

Having developed the impacts framework and used the framework to develop the semi-structured borrower interview schedule, the 60 borrower interviews produced data that was predominantly qualitative. The qualitative nature of the interviews is explored through the use of case studies, selected using a process of filtration, in Chapter Five. Using case studies to explore three borrowers enabled

an intensive examination of the different types of organisations that CDFIs lend to and the additional impacts that the lending in each case produced.

Whilst the 60 borrower interviews predominantly produced qualitative data, they also in part produced some data that was purely quantitative. For example, asking the borrowers how many employees were currently employed by the enterprise. In addition the CDFI loan file data were both qualitative and quantitative. The loan file data were coded into SPSS using a binary scale of (no = 0 / yes = 1) to answer closed questions for example, 'is the loan ongoing' or 'is the loan defaulted' and on a scale for variables such as loan amount and borrower age. It was possible to synthesise qualitative elements from the borrower interviews into quantitative data by coding variables. The coded data were used to undertake statistical analysis using SPSS in Chapter Six. For tiers of impact and variable coding see Appendix (9.7 p.347).

It should be noted that the categorical nature and variance of the quantitative data means that there are limitations to the claims that can be made from the statistical analysis. As such, the data analysis for much of this thesis is predominantly qualitative in nature and the data analysis reflects this with elements of quantitative statistical analysis. These are in the form of non-parametric correlations. Non-parametric tools are strongly indicated when assumptions about population characteristics cannot be made and when dependent variables consists of data that are rankings. In addition much of the data was categorical. Spearman's correlations can be used when data is not normally distributed, as this form of analysis is not sensitive to outliers meaning

that a valid result can still be obtained even when there are outliers within the data. The issues that emerged when undertaking the statistical analysis can be attributed to; the differences between the CDFIs, the local context of the lenders, who are locally embedded operating within their own geographical location and, the variety of different types of borrower enterprise interviewed.

Chapter Seven uses both qualitative and quantitative methods to explore the influences on impact within the CDFI lending process and the relationships between the lending process and impact. The analysis explores the 12 qualitative meetings with CDFI CEOs, the borrower interviews, loan files and 50 loan officer questionnaires. Four case studies are used to highlight the lending processes and impact. Statistical analysis using SPSS was used to explore the loan officers concerns at the application stage, perceptions of loan performance and feelings at different time points.

3.6.6 Ecological Validity

Considering the design of the methodology, the use of single interviews has been criticised for difficulty in determining the validity (Healey and Rawlinson, 1993). Measures were implemented to ensure the validity of the research throughout the study. Multiple data sources were combined to provide additional information (Yeung, 2003). This enabled checks to be made from the desk research and loan officer questionnaires by comparing the loan files with borrower and loan officer responses. Due to the nature of data collected findings are highly time and space specific.

The reliability of data was enhanced in two ways. First, triangulating the data enabled greater credibility and robustness of research (Baxter and Eyles, 1997:512). Second, there was a natural break in the data collection due to the tax-year end and Easter bank holiday. Although this was not originally factored into the research design, it acted as a natural check point enabling a reflexive approach to the borrower interview process (Baxter and Eyles, 1997). Reflecting on the initially transcribed interviews a resulted in the interview question schedule being amended slightly and in the interview process becoming more refined. This has been detailed above.

Whilst this methodology has been suitable for exploring the wider impacts of CDFIs, if the study was undertaken again there would be two changes made to the research design. First, there would be a longer break between the pilot interviews and the start of the data collection. This would allow a longer period to reflect on the initial pilot interviews and make changes. Second, one limitation of this research is that the data collected in cross-sectional and highly time and space specific. A longitudinal research design would mediate this limitation.

On a functional level this research should be easy to repeat. The creation of the impacts framework provides a tool that could be used by future researchers. The thesis also provides a benchmark of current impacts that could later be tested and measured against. Difficulties in repeating the research would centre on the ability of researcher in gaining access to CDFIs willing to participate, although obtaining access through the CDFA might facilitate this. The development of the impacts framework in conjunction with the CDFIs and linked to the available

academic literature coupled with using a mixed methods approach to collect data in the form of borrower interviews, lending officer questionnaires and file analysis helps support the credibility of the research. The triangulation of results from different sources helps enhance the validity of the research.

3.7 Conclusion

The purpose of this research is to measure the impacts of CDFI lending and ultimately to identify a series of measures that will help inform policy makers and funders in the future. This will help contribute to the development of CDFIs in the UK. By helping them to access future funding, CDFIs can continue to contribute to the finance gap and UK economy. The research process, initial scoping meetings were held with the CDFI CASE partners that helped to develop an understanding of the background of CDFIs, their formation, how they lend to borrowers and how they measure the impacts of lending. An impacts framework was systematically constructed through an iterative process of consultation with the CDFI CASE partners and a review of the academic and grey literature. This was validated against the CDFI loan file data. The framework linked to literature was instrumental in the development of the borrower interviews. The borrowers were selected and background data from the loan files was collected before the empirical data collection commenced. A total of 60 borrower interviews were undertaken. In addition, 50 lending officer structured questionnaires were completed. The data were transcribed, coded and analysed using Excel and SPSS. The qualitative and quantitative methods used to collect and analyse the data enhances the impact of this research.

In the following chapters the key themes that emerged from the analysis are explored in greater detail. The research design categorised impacts into three tiers of impact. Tier one impacts are impacts that are driven by policy. Tier two impacts are impacts that are possible to measure, but that are side lined by the politically desirable impacts. Within this group there are two impacts that are partially reported as a requirement of the ERDF. The tier three impacts comprise a whole series of other impact measures grouped into, possible, possible but too expensive and not really possible but could be collected. Chapter Five explores three borrower enterprises case studies to explore the qualitative nature of impacts from across the three tiers of impact. Chapter Six undertakes a statistical analysis of CDFI impacts. The penultimate chapter explores how the CDFI lending processes and procedures contribute towards impact.

The next chapter explores the tier one conventional policy driven impacts of CDFI lending. The chapter provides a contextual account of the drivers behind current impact evaluation and undertakes an analysis of the tier one impacts using the data. These are seen in the context of debates on economic multiplier analysis, how KPIs lead to routines and routine processes and the role of consultants in reinforcing KPIs. Following this the three tiers of impact are discussed. The first, the policy derived current impacts, are analysed using the data collected from loan files, borrower interviews and lending officer questionnaires. The chapter starts by exploring economic multiplier analysis.

4 CURRENT IMPACTS: TOWARDS A FRAMEWORK FOR MEASURING THE IMPACT OF CDFI LOANS

4.1 Introduction

This chapter aims to provide a contextual account of the drivers behind current impact evaluation and undertakes an initial qualitative and quantitative analysis of the current CDFI impacts. Section 4.2 starts by exploring how the antecedents of CDFIs and early CDFI evaluation, has shaped how they currently measure impacts. It develops the initial understanding of CDFI origins outlined in Chapters One and Two. Identifying the similarities and differences between CASE partners reveals inconsistencies between current practices. This leads into an account of how the trade association, the CDFA, currently report impacts. Section 4.3 examines the concepts behind economic multiplier analysis and argues that for CDFIs there are different types of impact. Economic multiplier analysis provides one standard approach for considering the impacts of an activity on a local or national economy. It is a standard technique that primarily focuses on monetary impacts. Exploring the concepts behind economic analysis highlights that the current approach to impact means that CDFIs fail to measure some impacts.

Section 4.4 explores the political context surrounding CDFIs and the measurement of impacts. It argues that the current impacts that arise from policy fail to consider and measure other impacts that may also be politically desirable. This cycle of dependent pragmatism leads to tensions. Section 4.5

explores the three tiers of impact from the impacts framework outlined in Chapter Three. The first of these, the tier one conventional impacts, are analysed in two ways using the research data collected from interviews and loan files. First, using the CDFA methodology of reporting impact and second, by exploring the data in terms of category of borrower, size and cost of the loan spend per employee. Section 4.6 concludes the chapter and argues that if CDFIs were to undertake an economic multiplier analysis, such an analysis would at present, fail to identify the wider additional impacts of their lending activity. By identifying some of the wider additional impacts of their lending activity, this research could help enable CDFIs to undertake an economic multiplier analysis in the future. The next section details the history of CDFIs and the origins of CDFI impact evaluation.

4.2 The Antecedents of CDFIs and CDFI Evaluation

To explore and understand impact it is important to understand the origins of CDFIs and history of CDFI evaluation. This section explores this, and builds upon the origins of CDFIs outlined in Chapter Two, before developing an understanding of how CDFIs and the CDFA currently measure and report impacts. Additionally, the similarities and differences between the CDFI CASE partners are outlined.

UK CDFIs emerged in a series of three phases (Appleyard, 2008). The first phase spanned the 1960s and 1970s, the second the 1990s and the third the 2000s. Whilst co-operatives have existed since the 19th Century, the antecedents of

community finance can be traced back to the 1960s with the establishment of community credit unions (Brown *et al.* 2003, Collin *et al.* 2001). The 1970s saw the creation of Triodos Bank (1971), Industrial Common Ownership Finance Ltd (ICOF) (1973) and The Princes Trust (1976). Whereas CDFIs such as ART were established prior to 1999, phase two saw the formal adoption of the CDFI concept by the Labour Government in 1999 (NSFNR, 1999; Appleyard, 2008). The third phase saw the growth of CDFIs following the introduction of the Department of Trade and Industry (DTI) Phoenix Fund in 2000. The three phases outline by Appleyard (2008) can be summarised as, the pre CDFI phase, the CDFI inception phase and the CDFI growth phase. Following the 2008 global economic crisis a fourth phase can be added, the CDFIs in recession and recovery. The 53 surviving CDFIs of 2013 (CDFA, 2014), down from over 80 listed by Appleyard (2008), has seen the consolidation of stronger CDFI models whilst weaker CDFIs have closed. As the economy has recovered, new CDFIs are starting to emerge.

The National Strategy for Neighbourhood Renewal (NSFNR) 1999 report published by HM Treasury and entitled '*Enterprise and Social Exclusion*' was produced by the UK *Government's Policy Action Team 3* (PAT 3), itself a subsidiary of the Social Exclusion Unit (NSFNR, 1999; Appleyard, 2008:52; GHK, 2010:13). The PAT 3 report identified three main barriers confronting entrepreneurs and SMEs (NSFNR, 1999), and explored how to stimulate and develop business enterprises in deprived areas in the UK to:

1. Provide better access to services and increase awareness of support facilities.
2. Remove barriers to enterprise finance.
3. Create more effective institutions to assist enterprise start-up and development by adopting a coordinated approach from voluntary, public and private services, at a national and local scale.

(NSFNR, 1999; Appleyard, 2008:52; GHK, 2010:13)

Thus, the barriers were, a lack of support and services, difficulty in accessing finance, and a lack of knowledge about the existing services and support. Exploring the link between enterprise and social exclusion, one PAT 3 conclusion was that access to finance in deprived areas was a major obstacle to the development of existing and start-up enterprise, and that CDFIs were a potential vehicle for tackling this obstacle (NSFNR, 1999; Appleyard, 2008; GHK, 2010). A PAT 3 prerequisite was that mainstream banks understood barriers to finance for SMEs in disadvantaged areas and through understanding these barriers assist through supporting corporate social responsibility (CSR) strategies (McGeehan *et al.* 2003; Appleyard, 2008). One of the outcomes of the PAT 3 report (1999) was a recommendation to launch a challenge fund known as the DTI Phoenix Fund. Announced by the Secretary of State for Trade and Industry Stephen Byers in 1999, the Phoenix Fund ran from 2000 to 2006 and resulted in over £42 million of investment being channelled into CDFIs (GHK, 2010). Funding was in the form of revenue grants, to support CDFI operational costs, capital grants to be lent to enterprises, and a loan guarantee fund designed to attract additional leverage finance from mainstream banks, charitable trusts and

private investors. The launch of the Phoenix Fund resulted in the growth of CDFIs throughout the first half of the 2000s but it also can be viewed as the acquisition of the CDFI sector by the state that has resulted in the application of a state imposed impact audit agenda. This audit agenda results in impacts being collected as part of a locked in path-dependent routine that CDFI have become locked into (Sydow *et al.* 2005).

The *Inside Community Finance* 2011 report published by the CDFA (2012a) tries to claim the credit for CDFI growth between 2002 and 2005, stating that: '*the advent of the CDFA in 2002 initiated a period of unprecedented growth, with the number of CDFIs nearly doubling in three years, from 45 in 2002 to 80 in 2005.*' This represents average annual growth of the sector of 26% per year over the three years. Yet the same report provides figures illustrating that between 1993, and 2000, CDFI numbers had grown steadily from ten organisations to 25, representing an averaged annual increase of 36% per year over the seven-year period. The launch of the DTI's Phoenix fund in 2000 coincided with an increase in CDFI numbers from 25 to 45 organisations over two years, which averages out at a 40% increase per year.

The revolving loan funds that were operated by enterprises applying for funding from the Phoenix Fund formally became known as CDFIs. The UK Government promoted them as lenders of last resort and with the support of the DTI, Small Business Service (SBS), RDAs, Business Link, and the private sector, CDFIs emerged with the aim of bridging the funding gap being experienced by enterprise and individuals (NSFNR, 1999; Appleyard, 2008). The funding gap

that continues to be felt by SMEs in areas of high deprivation is due to mainstream banks being reluctant to lend, as, to banks, small loans to enterprises (usually lacking collateral) equates to higher transactional costs in the lending process and an increased risk of default.

4.2.1 The History of CDFI Evaluation

The antecedents of CDFI evaluation can be traced back prior to the launch of the Phoenix Fund to the early CDFIs of the 1990s. Documentation from ART (1999)⁹ illustrates the ART case for intervention. They identified policy needs to provide local jobs for local people, enhance social inclusion, the future role of city and urban areas, reducing travel to work, local environmental benefits and competitiveness. Not-for-profit community finance enterprises such as ART were considering the social, economic and environmental impacts of their activities prior to the formal adoption of the CDFI concept and before considerable Government resources were allocated to CDFIs in the form of the Phoenix Fund.

A formal consultancy impact evaluation of the Phoenix Fund was undertaken by GHK in 2004. The report followed four evaluation criteria. These being as follows: explore the effect of the fund on CDFIs, examine the effect of CDFI activity on borrowers, determine how the borrower behaviour affected the local community and how successful CDFIs were at addressing market failure within disadvantaged groups. In line with the PAT 3 report, the policy context at the time of the report was focused on the provision of finance to disadvantaged

⁹ Unpublished, made available to the researcher.

areas and disadvantaged groups. The report found that *'positive economic impacts have been generated as a result of CDFI activity, and with the impacts occurring, in large part, in disadvantaged areas and within target groups'* GHK (2004). The GHK (2004) finding is not very surprising. CDFIs are targeting particular sectors and groups within local economies, and tend to be located in areas of economic deprivation. Accordingly, their impacts are going to predominantly be found within the areas where they undertake their lending activity. The GHK (2004) does start to mention the number enterprise start-ups and jobs created by CDFIs. The evaluation of the Phoenix Fund was focused on a policy need to justify value for taxpayer money. As not-for-profit organisations that rely on and receive public money, CDFIs started to measure impacts in response to this policy need, and as policy needs have altered CDFIs have adapted to the current political contexts as they have emerged.

4.2.2 How CDFIs Currently Measure and Report Impact

Initially a CDFI will obtain a source of funds with an attached requirement to create and record policy impacts. Accordingly, CDFI loans to borrowers are made not only to produce an economic return, but also to create impacts. The process of recording impacts starts during the initial meeting between the potential borrower and lending officer. Here the CDFI will gain an initial understanding of the borrower's finance requirements and plans. Following this initial meeting, if the borrower proceeds, then notional impacts are recorded on the loan application. These notional impacts help to inform the underwriting decision as CDFI loans are made not just on the basis of an economic return, but consider the

potential impacts that might occur from lending. If the application is successful, notional (and actual in the case of businesses started / saved) impacts are reported dependent on the individual funders reporting requirements. Following the drawdown of the loan, monthly or quarterly monitoring by CDFIs is used to check whether the notional impacts have actually occurred and also to record any additional impacts. These direct results are reported to funders and to the CDFA through their Change Matters programme. This is a performance framework, demonstrating performance and impact, developed in conjunction with Royal Bank of Scotland (RBS). It consists of a self-assessment of, business, impact and finance performance, combined with an independent audit which takes the form of a corporate assessment report (CDFA, 2013). The recording and reporting process isn't always as smooth in practice, as one CDFI CEO outlined:

'We provide monthly reporting, both financially in terms of what we've spent, where it's gone and also the projected outputs when we lend. So, I lend to your business, you tell me that as a result of that loan, that you are going to take on three new staff members, you're going to introduce a new environmental process and you expect to increase your turnover by 150k. So I would report that, then subsequently, six or nine months down the line I will contact you and you will tell me what the actual results are. Which in every case will be different from the forecast ones, and we are obliged to report on both those instances' (CEO3, 2011).

The CEO quote demonstrates a little about the nature of relationship lending and the information asymmetry that occurs between financial providers and

borrowers (Lean and Tucker, 2001). It highlights the difficulties in weighing information during the underwriting stage. Incorrectly weighted information can result in adverse selection (Stiglitz and Weiss, 1981) and this can also result in good lending prospects being rejected and poor prospects being accepted (Altman, 1968). Finally, it raises questions about how CDFI loan officers make lending decisions and indicates that loans should be made based on the viability of the business proposition.

The CDFI CASE partners all used similar direct measures as the primary tool for assessing the impacts of the loans that they issue. Four measures used by all CASE partners were: jobs created or saved and businesses created or saved. Whilst the CASE partners collect a wealth of additional information, such as turnover, leverage, gender and ethnicity, there are a number of differences in how much detail the different CDFIs collect. This is partly because Government and European funders, Local Councils, and other stakeholders all have an influence on the information that is collected for evaluation. An additional use of the current impacts is that CDFIs use the positive measures in their marketing material, highlighting to potential borrowers (and funders) that they lend to create and save enterprises, and create and save jobs, as well as to lend to marginalised groups. Listing their social values and missions in this way helps differentiate them from other lenders, but it also indicates to borrowers the impacts that are desirable. This often leads to differences between borrower business plans and the impacts that are actually recorded; indicating that borrowers produce business plans to facilitate their loan application. Additionally, some borrowers employ consultants to produce their business

plans. Consultants are likely to either misjudge the expected impacts due to information asymmetry (Lean and Tucker, 2001) between them and their clients, or overstate impacts in order to help their client, the borrower, obtain the loan, resulting in adverse selection (Stiglitz and Weiss, 1981).

Exploring how the CDFIs collect and report impacts, through the initial scoping meetings and interviews indicated that whilst there is some standardisation in how CDFIs currently collect and report impacts, the collection and reporting of wider impacts remains fragmented. Additionally, one risk with the current methodology is that judgements will tend to veer towards the positive.

4.2.3 How CDFI Impact is Reported by the CDFA

The CDFA undertakes a number of activities including overseeing the Change Matters programme, producing the Inside Out reports and the annual survey of UK CDFIs. The CDFA (2013) defines Change Matters as ‘an ongoing process with the overall aim of enabling CDFIs to improve their efficiency, transparency and outcome reporting which will in turn demonstrate the case for increased investment from government, banks and other agencies.’ The majority of CDFIs do not sit inside FCA¹⁰ regulation. To address this, since 2006, the CDFA has been working with its members developing a reporting framework independently with backing from RBS. It aims to ‘assure investors that its members have passed through an independently verified process of measuring performance against benchmarks in the areas of business, impact and finance’ (CDFA 2013). The

¹⁰ Previously FSA regulation.

benchmarking of impact measures can be seen within the *Inside Community Finance* report, the annual survey of UK CDFIs.

There are four spheres to CDFI lending. In conjunction with enterprise and CSO lending (itself split between CDFI and Social bank(s) lending), CDFIs across the UK serve personal and homeowner markets, providing loans for individuals to counter predatory doorstep lending, and to homeowners by providing home improvement loans. The CDFA (2012a; 2013; 2014) annual reviews for the years ending 31 March 2011/2012/2013 reports enterprise, CSO, personal and homeowner outcomes separately. The following sections detail the enterprise and CSO analysis. Enterprise lending outcomes have been calculated by totalling the amount lent, the number of loans and six impacts are reported (Table 4.1). The figures highlight a large increase in the number of businesses supported and started, yet roughly calculating the average loan size¹¹, shows them to be dropping (£15,300 in 2011, £11,600 in 2012 and £5,500 in 2013). This is explained by the inception of the Start-Up Loans fund, and the vast majority of these loans will be to individuals starting micro enterprises.

¹¹ Calculated as: amount lent divided by number of businesses supported.

Table 4.1 Business Lending Outcomes Reported by CDFA for Tax Years
Ending 4 April 2011, 2012 and 2013

Impact	Measure	2011	2012	2013
Lending	Total	£23 million	£30.2 million	£52 million
Businesses	Total	1,500	2,608	9,303
Jobs	Created	2,168	3,152	11,700
Jobs	Saved	3,535	5,169	3,420
Businesses	Created	712	1,797	8,357
Businesses	Saved	637	570	480
Turnover	Created	£171 million	£900 million	Not reported
Leverage	Total	£47 million	£36 million	£33 million

(Source: CDFA, 2012a; 2013; 2014).

CDFI business lending activity is further broken down by comparing the proportion of CDFIs serving business, their geographic scope, regional service delivery, business size, loans to start-ups versus existing businesses, by sub-market, target groups and customer referrals. The most notable of these are the target group outcomes. These illustrate the percentage of loans to customers from groups that could be subject to inequality and include loans to the disabled, ex-offenders, youths (>25), older people (<55), Black Asian Minority Ethnic (BAME), those on state benefits, the unemployed and women. Reporting the Social Enterprise lending outcomes is slightly more problematic as CSO

enterprises differ greatly. Aside from an anomalous change in 2013¹² generally figures are consistent within CSO reporting. Broadly, reporting follows a similar pattern that is reduced in scope (Table 4.2).

Table 4.2 Outcomes Reported by the CDFA from Lending to CSOs

Impact	Measure	2011	2012	2013
Lending	Total	£145 million	£145 million	£48 million
CDFIs	Total	Unknown	<i>£9.5 million (b)</i>	£13 million (a)
Social banks	Total	Unknown	<i>£135.5 million</i>	£35 million
CSOs	Supported	390	347(c)	306
CSOs	Created	65	31	76
CSOs	Saved / grown	325(d)	62(e) & 254(f)	230(g)
Jobs	Created & saved	Not reported	Not reported	1,900
Leverage	Total	£72 million	£80 million	Not provided

(Source: CDFA, 2012a; 2013; 2014).

Note. (a) Figure represents a 37% increase in CDFI lending to social enterprises, thus (b) is the extrapolated figure. (c) Combined figures of 177 Social enterprises & 170 Charities and community organisations (d) Combined social enterprises and charities & voluntary sector organisations (e) Saved (f) Grown (g) Combined social enterprises.

¹² Banking regulation and developments in the social investment market resulted in social banks undergoing a period of strategic re-positioning resulting in a 74% drop in social bank lending (CDFA, 2013:30).

The CSO lending differs from enterprise lending, loans are typically larger and the market is dominated by 3 or 4 large organisations that are in the 2014 report referred to as social banks. The total lent decreased in 2013, due to changes within the social bank structure, though the CDFA expects funding levels to return to normal in 2014. CSO lending activity is further broken down by comparing the, proportion of CDFIs serving civil society enterprises, geographic scope, regional service delivery, organisation type and customer referrals. The socio-demographics of borrowers from CSO lending are not included.

Exploring how the CDFA analyses CDFI impacts illustrates that collecting and reporting impacts is complex. There are many different types of CDFIs, serving a wide variety of markets, making the standardisation of measures for reporting purposes difficult. Predominantly they are only reporting the second type direct impacts. The CDFA reporting criteria is continually changing, evident in turnover no longer being included in the CDFA 2014 report and the difficulties in comparing the impacts of different types of CSO lending. The reports clearly illustrate that the level of enterprise lending has risen, as the number of CDFIs has decreased. Demonstrating impact to funders, especially policy driven funders, is increasingly vital to ensure the continuation of future funding. CDFIs attempt to access funding when it suits them. A recent example relates to round four RGF funding which opened for bids in January 2013 (Ward, 2015). Many CDFIs were unable to fully lend the funding that they had bid for and received, resulting in the CDFA returning the round four of RGF to Whitehall. Whether this will impact future CDFI funding and was a detrimental move remains to be seen.

4.2.4 Similarities and Differences between CASE Partner CDFIs

Due to CDFIs becoming locked-in to routines of measuring impact (Sydow *et al.* 2005) as part of the impact audit agenda set by the Government, there are very few differences between the CDFI CASE partners. The common measures used by them align closely with the national measures reported by the CDFA of jobs created, jobs saved, businesses created and businesses saved. The use of additional measures is slightly more fragmented. These include turnover, ethnicity, gender and additional funds leveraged. When asked whether there had been any changes in the number of impacts they reported one CEO responded¹³:

'Basically, we will do what we are asked to do and we don't do anything voluntarily... so, the number of outputs has dropped. For example there was that turnover figure. I say it's been dropped, maybe it hasn't, but it's not on my claim forms. But you never know with the EU they might decide that we want it anyway.' (CEO4, 18.05.11)

Another CDFI records as much data as possible as a means to future proof themselves against requests for information from funders. The need to provide details of impacts can be spontaneous depending on different funders requirements as another CEO outlined:

'We are asked on a more impromptu basis to provide information, so periodically [the local council] will ask us for data on the amount of lending that we've done. So we are able to extract that information on an as and when basis. It may relate to a report that they are doing – so for instance if they gave us 20k 3 months back I'll be asked what were

¹³ Interview conducted pre the 2014 CDFA report.

the results of that lending or they might ask for something very specific. Often, it tends to be a panicky phone call, we are at a meeting tomorrow – can you provide us with the following figures. The Council are darlings for that, they'll say we are at a meeting tomorrow, how many left handed people have you lent to in the last 5 years' (CEO3, 17.05.11).

These contrasting views of two CASE partners highlights that CDFI measurement can be intermittent and non-standardised, a view, reinforced by the CDFA analysis of outputs. CDFIs operate in different ways and are all very different organisations. As such, they are failing to measure and record some impacts on a number of levels.

4.3 Economic Multiplier Analysis for Impact

One way to evaluate the full impact of an organisation is to undertake an economic multiplier analysis (Isserman, 1980; Round, 1983; Richardson, 1985; and McCann and Dewhurst, 1998). The primary function of this type of input–output analysis is to quantify the interdependence of activities in the economy. It uses straightforward mathematical routines to track all of the direct, indirect, induced and dynamic impacts of an enterprise or project (Miller and Blair, 1985). By exploring the concepts behind economic multiplier analysis it is possible to highlight areas of impact that CDFIs do not currently measure. As a process that examines the effect of an event on the economy within a stated area, an economic multiplier analysis involves measurement of changes in economic activity caused by activities that are undertaken by specific enterprises, the

implementation of policy led programmes, individual projects or other economic events. The stated area that is analysed can range from the smallest neighbourhoods and populations through to global schemes. For this study, the economic event is the impacts of CDFI lending activity and the specified region is the West Midlands.

The four levels of an economic multiplier analysis; direct, indirect, induced and dynamic impacts (Miller and Blair, 1985) can be used to explore the activities of a CDFI in two ways. First, in relation to their activities as enterprises in their own right and second, in relation to the impacts created by borrowers due to the CDFI lending activity. Considering an economic multiplier analysis in this way means that there are two types of impacts within CDFIs. The first type impacts are those that arise as a result of the need for CDFIs and relate to their existence as organisations – they are job creators in their own right. The need for CDFIs arises from the finance gap that exists between mainstream sources of finance and SMEs. CDFIs exist as one solution to help fill this gap. The second type consists of the impacts resulting from the lending activities undertaken by CDFIs in trying to fulfil their individual missions and tackle the finance gap left by mainstream banks. These impacts relate to the activities of borrowers that are facilitated by CDFI lending. Each of these two types result in their own direct, indirect, induced and dynamic levels of impact. Using an economic multiplier approach, some examples of the two types of impacts are outlined.

4.3.1 The Impacts of CDFIs as Existing Organisations

The direct impacts arise as a result of the initial spending by the enterprise being studied, and include the impact on salaries, supplies and operating expenses. This spending has a positive impact on the local economy (Vanclay, 2002, 2003, 2006). The indirect impacts are a measure of the resultant enterprise-to-enterprise transactions that occur due to the direct impacts. Enterprises that benefit from direct effects will increase spending to other enterprises. The induced impacts are those, which arise as a result of increases in personal income and the subsequent increases in personal spending that results from the direct and indirect impacts. As enterprises generate increased revenue they require additional resource. This can be in the form of employing additional staff or increasing workers hours. As employees earn more they are able to spend more in the local community. The induced effect is a measure of this household-to-business activity. The dynamic impacts are the demographic impacts that occur over time in areas covered by the economic intervention. These include shifts in population and business location patterns, land use and resulting land value patterns. These changes ultimately impact upon the wealth and income levels of the area and the populations that reside within it (Table 4.3).

Table 4.3 Impacts in an Economic Multiplier Analysis in Relation to CDFI
Activities as Enterprises in their Own Right

Level	Impact: Concept	How it relates to a CDFI
1. Direct	Impacts on the local economy that arise as a result of the initial spending	The funding that supports CDFIs enables them to service their daily operations, such as, paying salaries, rents, rates and operational support costs.
2. Indirect	Impacts that result from transactions caused by the direct impacts, such as the impact of purchases made by the jobs created.	The funding allows CDFIs to work towards a common objective, which is to provide finance to enterprises that are fully or partially excluded from mainstream finance. These borrower enterprises generate their own impacts within their own communities.
3. Induced	Impacts of increased income that result due to the direct and indirect impacts	The funding enables successful CDFIs and borrowers to generate multiplier impacts, for example through increased salaries, the personal spending of enterprise staff, the positive multiplier impacts of increased trade with suppliers and local tax returns.
4. Dynamic	Impacts caused over time by geographical shifts in businesses and populations	The funding enables CDFIs to realise their longer term objectives of enhancing the social and economic development of the areas in which they operate.

Using the concept of economic multiplier analysis, it is possible to identify two, type one, direct, measurable, standard and robust impacts that are not currently measured or reported by the CDFA (Table 4.4).

Table 4.4 Direct Impacts of CDFIs as Enterprises in their Own Right

Number	Direct Impacts	Measurement
1	Jobs created and supported by the CDFIs themselves	Not measured by CDFA ¹⁴
2	Supply chain of the CDFI	Not measured

CDFIs require people to run and manage their daily operations. These are knowledge-based jobs that cover a wide range of skillsets and include the chief executives who control operations, loan managers who assess and lend to viable propositions, through to administrators, finance and business development officers, all essential in the smooth running of such an organisation. Given that the four CDFIs involved in this project directly employ 30 people, it is strange that CDFIs and the CDFA have not until recent years measured and reported these jobs as impacts. The CDFA (2013; 2014) *Inside Community Finance* annual reviews of UK CDFIs appear to be the first to do this, stating that CDFIs have employed 466 and 670 people in 2012 and 2013 respectively. Whilst in the same years the number of CDFIs has dropped slightly from 55 to 53 organisations. CDFIs have increased their own employment by 44% at the same time their numbers have been declining, but the volume of lending has increased.

¹⁴ CDFI jobs were finally reported in the CDFA reports *Inside Community Finance* (2012; 2013) published March 2013 and March 2014 respectively.

The direct and indirect type one impacts of CDFIs relates to their initial formation and ongoing operation. The four CDFIs involved in this project operate from different locations within the West Midlands. In these locations they lease premises and engage with a wide variety of suppliers. These can range from accountants, enterprises offering IT services and support, web designers, print services, through to general office suppliers and the local sandwich shop where staff buy their lunch (CEO1, 2011; CEO2, 2011; CEO3, 2011; CEO4, 2011). Whilst these purchases are not substantial they all help contribute to local economies and are the type one direct impacts of CDFI operations. Some CDFIs have been growing in size in recent years, recruiting new staff members and changing some employees from part-time to full-time staff as they increased in size (CEO2, 2011). ART, BCRS, CWRT and Impetus currently all have at least one or more employees that previously worked for a mainstream bank (CEO1, 2011; CEO2, 2011; CEO3, 2011; CEO4, 2011). Other CDFIs have remained approximately the same size (CEO4, 2011).

The type one induced impacts that have resulted from the continued funding of some CDFIs are the impacts that continued CDFI operations has had on the employees, their partners and children. The salaries made by CDFI staff have an impact upon themselves and their families and a subsequent effect on the levels of spending in the local community. For one CASE CDFI an impact has been the continued employment of an individual past traditional retirement age (CEO3, 2011). The type one dynamic impacts of funding CDFIs relate to demographics of the location of the CDFI. By occupying offices, employing staff and paying salaries, CDFIs contribute to building a better local community environment. For

example buildings being kept in use and maintained rather than left vacant, leads to less socially unacceptable behaviour, lower crime rates. Like most employees CDFI staff contribute to the local and national tax-base by paying tax. Multiplier impacts could be measured by measuring the direct, indirect induced and dynamic impacts of every enterprise that CDFIs and their employees engage with, their suppliers, funders and in particular their customers.

4.3.2 The Impacts Created by Borrowers due to CDFI Lending Activity

The second type of impacts result from a CDFIs core activity of lending to enterprises. These impacts can be measured to assess impacts on borrowers, the employees of borrowers, the families of borrowers and staff, and the communities that enterprises, borrowers and staff engage with, through to environmental changes that occur locally and nationally. The initial direct impact of providing a loan to an enterprise is that the enterprise has funds available from which they are able to undertake their individual objectives. These could be projects, research and development of new products or working capital that helps with an enterprises cash flow. CDFIs measure this impact by calculating the amount lent and the number of enterprises lent to. As a consequence of this funding, other impacts occur that can be in the form of employment, the creation of the businesses, increases in turnover, profits and borrower assets. Some of these impacts are currently measured and some are not measured (Table 4.5).

**Table 4.5 Current and Possible Indirect Impacts from Borrower
Enterprises Occurring due to CDFI Lending Activity**

Levels	Impacts	Examples of possible impact measures	Current Policy Measurement
Direct	Impacts on borrowers	Employment	Measured
		Turnover	No longer measured
		Start-ups	Measured
		Saving enterprise	Measured
		Capital investment	Not measured
		Research & Innovation	Not measured
Indirect	Impact on CDFI borrower supply chains and clients	Impact on regional suppliers. Employment, turnover, profit, sales, tax	Not measured
	Induced		
Induced	Impacts on borrowers families and the families of the borrows employees	Wellbeing, social status, entrepreneurialism additional job creation elsewhere in economy, international trade	Not measured
	Dynamic		
	Impacts on the local environment	Community enhancement, reduction in welfare	Not measured
	Impacts on tax base	payments, increased tax revenue supporting Government spending	

Note. Populated from impacts framework.

4.3.3 Direct and Indirect Impacts

This section explores some of the direct and indirect impacts of CDFI and CDFI lending activity. First there are the impacts of CDFI operational activity that may result in jobs within CDFIs and expenditure to support the CDFI. This expenditure may result in jobs being created elsewhere in the economy. Second, there are the impacts of the CDFI loan to borrowers that may result in jobs being created or saved in the borrower firm and the expenditure to support the borrower firms. This may lead to additional jobs being created elsewhere in the economy. Finally, a loan may increase jobs elsewhere in an economy but result in a decline in jobs in the borrower firm.

Direct impacts result from the initial funding whilst secondary indirect impacts occur following the funding but can be attributed back to the original loan. The indirect impacts are all the possible multiplier impacts that arise as a result of the loan. Examples include; the borrowers and employees wealth, health, the employees and businesses spending within the community, the positive or negative impacts on family members, through to the impacts on competitors and suppliers. One example taken from the borrower interviews provides a general picture of the direct and indirect impacts of a firm. The enterprise was selected based on measures of centrality relating to loan size, number of employees and duration of the loan. The business is a technology firm that required working capital to help fund the first stage of a large project worth just under £1 million. The enterprise employs 15 staff including the principal borrower. Without the working capital the enterprise would not have been able to undertake the project. According to the borrower: *'without the loan, we would have had to walk*

away because it would have buried us...it was extremely important... last year was pretty grim, we very much needed this project...so it kept us alive' (C1, 06.08.13).

The CDFI files indicated that up to 12 jobs would have been at risk and lent £30,000, on the basis of job preservation and the potential for new jobs. Additionally the enterprise managed to leverage in a further £25,000 of private investment. The CDFI loan was issued for a term of 36 months, although it was repaid early, as the borrower outlined: *'I explained the situation was, that it was pretty much for two months while we were seeing ourselves through the project and that they would have their money back within six months'* (C1, 06.08.13).

The direct impacts of the CDFI lending are that the loan enabled the enterprise to undertake a large project resulting in the preservation of 12 jobs and, as indicated by the borrower, saved the enterprise itself. The indirect impacts were numerous and varied. Initially, the project resulted in positive impacts on UK and global suppliers: *'we spent over half a million pounds on communications equipment...the equipment comes from Europe, but everything we buy comes from UK suppliers'* (C1, 06.08.13). The project has improved security and communications for the major client impacting on their operations. A further consequence of the project was a strategic shift in direction of the enterprise, which now acts as a principal contractor rather than as a subcontractor. This, coupled with a focus on larger projects has resulted in improved profit margins. Initially three additional employees were taken on, though one was let go due to reliability issues. One staff member has been sent on a training course and is receiving vocational training. Indirect impacts on the borrower include a reduction in stress levels and improved personal income. Impacts can be

negative too: *'I did horrendous hours, but it was a means to an end and I could see the benefits we were going to achieve from it'* (C1, 06.08.13) although in this case they are rationalised against the benefits.

The example illustrates how recording and reporting the direct impacts is straightforward. This type of measurement is undertaken as a means to obtain future funding by CDFIs. Measuring the indirect impacts is much more complex and requires a lot of additional resources. In the next section I argue that focusing on audit and evaluation to measure policy driven KPIs can reduce the effectiveness of the public money spending.

Exploring economic multiplier analysis in the context of CDFIs, illustrates that there are immediate 'above the table' measurable impacts, that CDFIs are not measuring; they are in fact missing impacts. This raises further questions. There are two types of jobs supported by CDFIs, those that are supported by the existence of the CDFI and those that the CDFI supports through its provision of loans to enterprises that are creating and saving employment themselves. Yet only the jobs associated with the lending activity are ever reported upon. Because of this, the conventional measures are actually undercounting the role of CDFIs because the first set of jobs it is creating and supporting nobody counts. What is so different about those jobs that come directly from a CDFI that nobody ever talks about them? Why do CDFIs have missing impacts that are never mentioned? Is it because they are not deemed by the suppliers of funds to be worth measuring? If so, why? Some of these questions can be answered by exploring the policy impacts. The next section categorises the impacts that arise

from policy and European funders to explore the political context of CDFI evaluation. It begins by outlining the ERDF measures which are a good account of the politically desirable measure of impact for CDFI lending.

4.4 The Policy Driven Impacts

The standard impacts that come from policy and European funding are primarily focused on employment and are outlined in *Output Definitions, ERDF 2007-2013* (DCLG, 2011) as:

- Employment increase
- Businesses created
- Net increase in firms
- Gross Value Added (GVA)
- Knowledge intensive firms
- Change in employment rate
- Net additional employment

Currently, the impacts that CDFIs are measuring are not measured accurately. It is difficult to measure the full extent of CDFI impacts. There are tensions between different political debates and the impact agenda set by the Government. For example, two political debates that are missing from the current CDFI impact criteria, which are evidenced within the data set, are productivity and exports. There are tensions between the notion of employment and productivity, as one way to increase productivity is to reduce operational overheads, and this can result in reducing employee numbers. Businesses that

export goods and services help to increase Gross Domestic Product (GDP) and increased GDP helps to reduce the deficit. Currently there are few obligations for CDFIs to measure additional impacts to the politically driven ones. This is due to there being a perceived lack of financial benefit and difficulty in achieving additional impact measurement. Yet, there would be a financial benefit of doing so, in the form of continued funding. The policy driven outcomes primarily focus on creating and saving jobs, through either creating or safeguarding enterprises. All of these measures relate to jobs, thus the politics of employment as an impact measure are explored next.

4.4.1 Politics of Employment as an Impact Measure

It is clear why any Government that comes to power would wish to be seen as working towards helping create employment opportunities. The credit crunch caused high unemployment and saw the closure of many businesses throughout the UK, although unemployment was not as severe as the 1980's recession (Bell and Blanchflower, 2010; see also Gregg and Wadsworth, 2010). Higher numbers of people are working for longer, past retirement age, and many people take second jobs to help fund their lifestyles, whilst everyday goods and services increase in price due to inflation. Youth and graduate unemployment remains particularly high, with many graduates struggling to find employment, suitable or otherwise (Bell and Blanchflower, 2010:6). There are debates on job quality; one aspect is salary, an important aspect, as money provides a means to maintain a way of life, maintaining a social identity and 'of signalling ones progress on the consumption ladder' (Lamont, 1992:67). The benefits of jobs differ in many ways

and can include, working time, work-life balance, the nature of the job itself, the speed of work, the ability to use initiative and relationships that we build with others, all of which go towards peoples progress for Maslow's self-actualisation (Lamont, 1992; Adler, 2008). Thus, employment and unemployment can have positive and negative impacts on people's wellbeing.

High unemployment creates social, environmental and economic issues. Burgess and Propper (2002) and Lupton and Power, (2002) explore some of the wider social impacts of the effects of poverty in areas of social exclusion. Some of these relate to joblessness and levels of income, increased criminal activities and antisocial behaviours, along with the adverse effects on wellbeing that long-term unemployment causes. People who are unable to meet Maslow's (Lamont, 1992; Adler, 2008) basic needs, for prolonged periods of time, suffer from increases in anxiety that can induce a sense of worthlessness. Joblessness can attract a multiplier of environmental impacts. Where many enterprises have closed, abandoned properties can attract antisocial behaviours such as drug use, squatting and crime.

Economically, high unemployment benefit spending, impacts on the UK taxpayers in the form of welfare spending and loss of revenue to the Government. As more resources are used to fund benefit schemes and the tax base decreases, there is less money available for pensions, schools, hospitals, roads and much more. Research undertaken by Ipsos MORI (2013) suggests that the UK public perception of the state of the economy is most influenced by levels of unemployment (52%) inflation (40%) and government debt (38%). This

means that the creation and preservation of jobs to reduce unemployment is seen as fundamental to the economic stability of the country. SMEs contribute towards employment. The data from this research shows that the borrower enterprises (including the borrowers) currently employ 601 people. By supporting CDFIs, the Government has contributed towards supporting all of these jobs. Overall, supporting CDFIs is a small part of the UK Governments interventions that attempt to help the economy. Given this, it is unrealistic to expect the drive for significant changes in CDFI impact measurement to come from Whitehall, as they are using a standard series of measures for many of their interventions. Governments and policy change. CDFIs and the CDFA must ensure that they have a systematic and comprehensive series of measures that can be used in anticipation of changes to policy that might arise in future.

4.4.2 How KPIs Drive Impact Measurement, Distort Policy and Produce Tensions

There are path-dependent routine processes (Sydow *et al.* 2005; Martin and Sunley, 2006) within the cycles of funding and impact measurement that can be identified in different types of CDFI (Figures 4.1 & 4.2). These demonstrate the self-supporting nature of impact measurement. When considering cycles of funding all CDFIs fall into two categories:

1. Those that follow KPIs set by funders – project based CDFIs
2. Those that have their own objectives but still have to use impact measures linked to specific flows of funds

Figure 4.1 Cycle of Impact Measurement for Project Based CDFIs

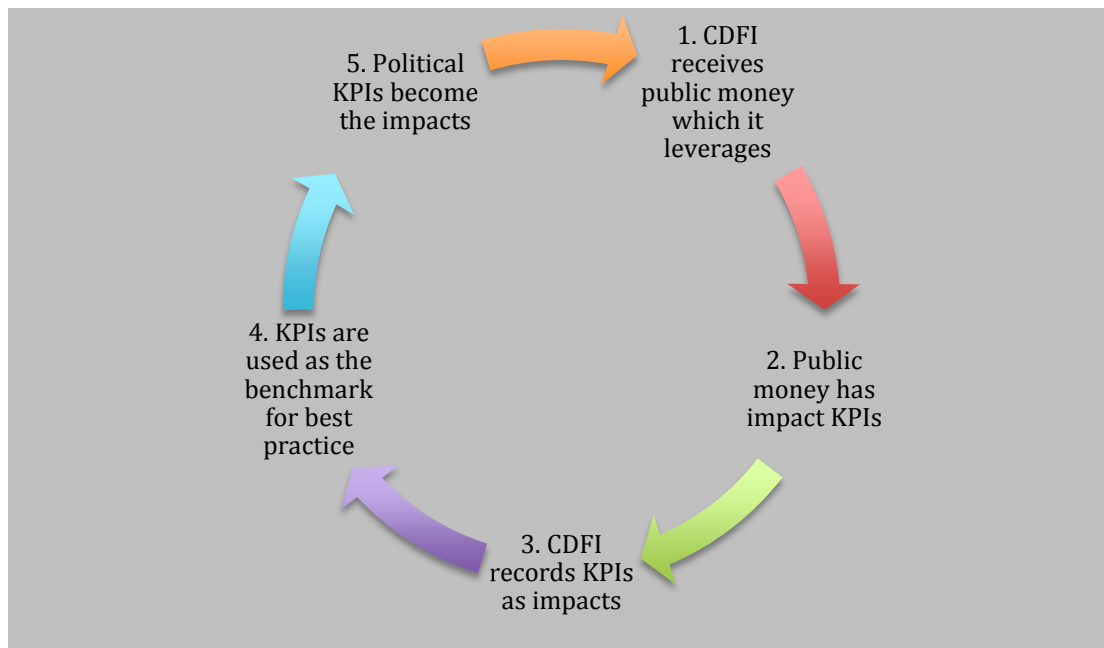
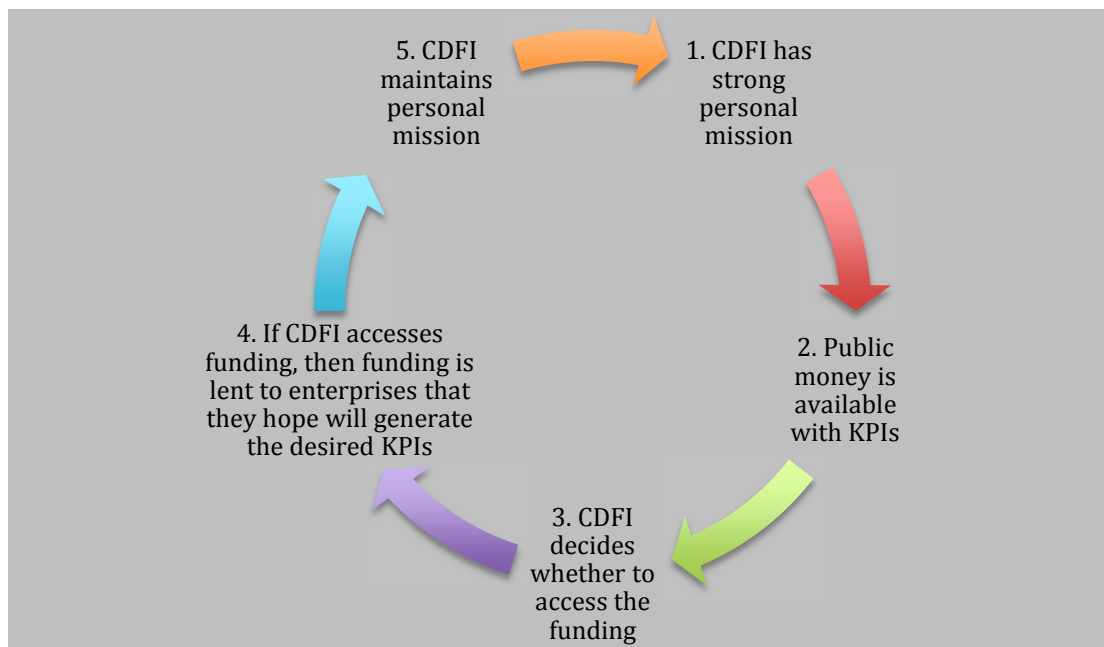


Figure 4.2 Mission Orientated CDFIs and Public Money



CDFIs bid for and receive public money to lend to deprived communities and marginalised borrowers. The funds have attached to them different expectations

for measuring lending impact. The most common of these KPIs are specified as; jobs created and saved, and enterprises created and saved. The CDFA engages with CDFIs to measure impacts of lending, and the CDFIs report the politically driven measures as impact. The politically derived measures have become the impact benchmark and the additional wider impacts are not measured or reported upon. Alongside this, at any one time, a CDFI might be managing several loan funds within its portfolio and some of these loan funds will have different expectations for measuring impacts.

One possible tension that could arise from the funding cycles is that in trying to ensure that public money is spent effectively the impact of the spending is actually reduced. This can occur in a number of ways such as through missing opportunities to fund viable enterprises that do not have the immediate impacts deemed preferable by policy driven funders, or through CDFIs becoming so concerned with the audit, that they forget the ultimate outcomes that they are trying to achieve. They therefore deviate from their mission objectives. An example is the politically driven measures outlined by the ERDF, which preclude lending to certain types of enterprise, such as retail, and identifies a requirement to lend to knowledge intensive businesses. Limitations such as these constrain a CDFIs ability to disperse funds, and can ultimately lead to an unbalanced economy. There are tensions in using 'jobs' as an impact measure. One of these tensions relates to employment or jobs not being a permanent activity. The measure of job creation by CDFIs only represents jobs that have been created within the timeframe of the loan. Following the repayment of a CDFI loan those created jobs may disappear or additional jobs may be created. A different tension

whether the job creation would have occurred without the CDFI loan event. These tensions are examples of the two concepts within additionality, deadweight and displacement (McEldowney, 1997; Lenihan, 2004) which can occur within a CDFI context. For a CDFI exploring these tensions is problematic as it could result in the overall level impact being reduced.

Some impact evaluation can be expensive and superfluous. One CDFI (CE01, 09.05.11) outlined an example of impact evaluation in relation to the EU Key Fund when one condition of £400,000 funding was for a £30,000 evaluation to be undertaken. The costs were shared evenly between the EU and CDFI. The final report was not widely read. *'It was read by only two members of the committee and by the Bank of England. EU and Birmingham City Council members didn't read it...the Bank of England went on to use it as the basis of their report on finance and social enterprises.'* The CEO went on to state, *'the challenge facing anybody who is obtaining impacts analysis and outputs information is getting people who are involved in the sector off the cynical side to say well why are we doing this and is it going to be used in the future?'* These assertions appear to be borne out. The evaluation of the Key Loan Fund (Roger Tym & Partners, 2002) was the first British attempt at measuring the impacts of CDFIs. Whilst it has not been mentioned in any of the consultancy reports evaluating CDFIs, though neither have many other academic literatures, it was briefly referenced in the Bank of England 2003 report on the financing of social enterprises. They outlined that, at the time, evidence from four UK CDFIs showed large increases in the volume of loan enquiries and applications and concluded that the Key Loan Fund: *'loan finance was seen as a viable option, and a cultural shift in approaches to financing*

social enterprises was beginning' (2002, cited in BOE, 2003). The CASE CDFIs have reported a similar increase in loan enquiries and applications throughout the credit crunch as enterprises have struggled to acquire finance. This is substantiated by the CDFA (2012; 2013; 2014) annual reviews.

The KPIs attached to political funding at present prevent CDFIs from lending to some viable enterprises. They also place constraints on CDFIs by prohibiting them from lending to some sectors, such as retail enterprises. This disadvantages those who are unable to obtain mainstream finance or CDFI finance. If CDFIs are constrained in their lending activities, potentially there is a funding gap within the funding gap that they operate in.

As CDFIs are grant dependent due to the nature of the lending that they undertake, the higher risk associated with lending to marginalised enterprises means that it is less likely that CDFI loan funds will ever become fully sustainable. Grants help to alleviate this by topping up loan funds diminished by defaults. This grant dependency results in two outcomes. These are that they drive performance to produce impact and drive the CDFI to spend the money. Two CDFI CEOs commented on how political KPIs drive their organisations to produce impact: *'Truth is that we only end up doing it because it's a means to further funding – which is sad'* (CEO1, 09.05.11) and *'It's about the flexibility to make the model attractive to different players, but also recognise different agendas and play to those. All local authorities want to see small businesses create jobs'* (CEO2, 16.05.11).

4.4.3 The Role of Consultants in Reinforcing Political KPIs

There have been a number of consultancy reports produced relating to CDFIs (GHK, 2004, 2010, 2013 and NEF, 2004, 2007, 2008). *'Consultants can be used to 'park a problem', divert pressure for action, legitimate a desired solution, resolve conflicts and sometimes to generate alternative solutions'* (Henkel, 1991:90). Consultants face their own tensions between delivering on client demands and performing as independent businesses. The CDFI consultancy reports continue to report jobs as the most significant impact. The GHK (2010) report evaluated the sector in the context of the Government's access to finance interventions. Its purpose was to inform policy on the strategic role of CDFIs and establish rationales for the continued funding of the sector. It illustrates that the idea of job creation remains a strong measure of the success of investment in industry and enterprise, concluding that: 'Public support for CDFIs should be provided in proportion to the economic and social impact that CDFIs deliver, therefore measuring social impact is key to demonstrating a part of the return on public investment that CDFIs can deliver' (GHK, 2010:10). BERR (2008:17) illustrates the importance of five links between the enablers of enterprise and the drivers of productivity. Skills, innovation, enterprise, competition and investment are key drivers of productivity. These are enabled by culture, knowledge and skills, access to finance, business innovation and regulatory frameworks. Using the enterprise driver of productivity as a guide, the GHK (2010) identifies and argues that a combination of four policy drivers; enterprise growth, enterprise-driven regeneration, support for local enterprises and enterprise within under-represented groups; has shaped public policy and funding support for the CDFIs in recent years. The GHK (2010) report does not build links between the other

drivers, of productivity and CDFIs, and the current impact measures identified are linked to growth.

To date, consultancy reports have not identified other impacts. This can be partly explained by the transactional nature in the relationships that develop between consultants and their clients (Delany, 1995; Fincham, 1999; Ben-Gal, 2011). If a consultant indicates the wrong impact measure, the CDFI that commissioned the report will not accept it. This is because for the CDFI funders and the CDFIs impact is focused on the politically desirable measures.

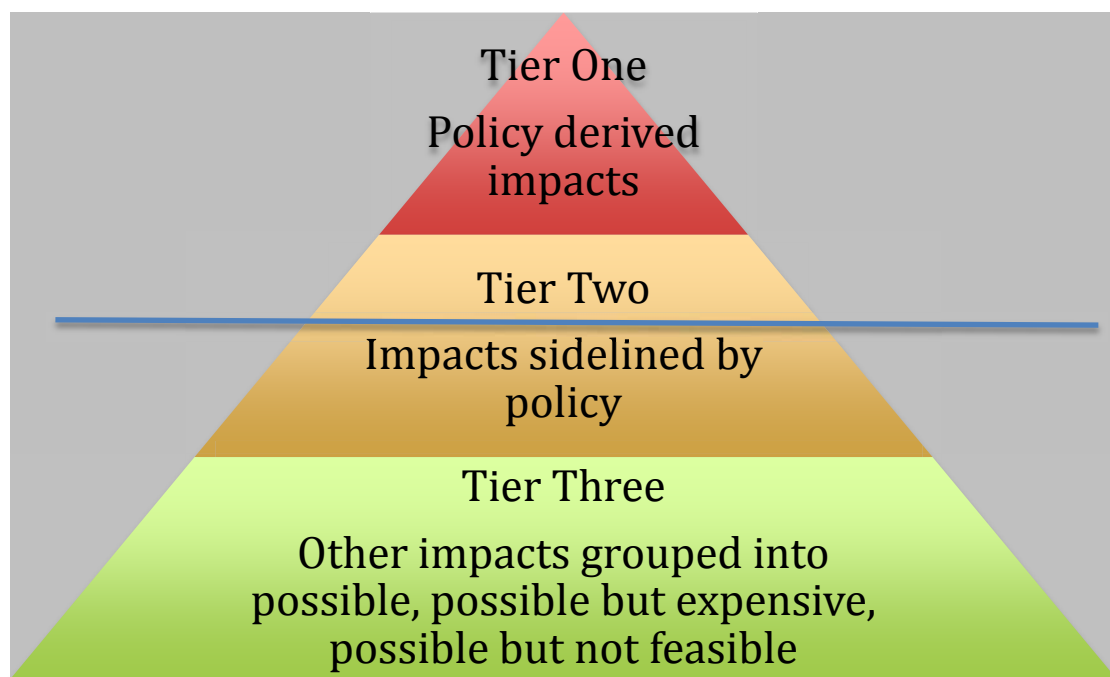
There have been a large number of reports commissioned by a variety of CDFIs and the CDFA. This is an example of embedded isomorphism (DiMaggio and Powell, 1983; Tuttle and Dillard, 2007) that occurs within the CDFI sector. Consultancy evaluations reinforce the cyclical system of funding and impacts assessment that has developed between CDFIs, funders and the CDFA. As such the use of some consultants has become a path-dependent routine process (Sydow *et al.* 2005; Martin and Sunley, 2006). This hinders the identification of wider additional impacts that exist as a result of CDFI lending. Additional impacts that are not currently measured fall into three broad categories, and are explored next.

4.5 Identifying and Classifying Different Tiers of Impact

The monetised economy can be represented as the tip of an iceberg with the traditional economic outputs sitting visibly above the waterline and the bulk of

the ice-mass sitting below the waterline (Gibson-Graham, 2003:61). Chapter three revealed that there are three tiers of impacts. Like the Gibson-Graham (2003:61) monetised economic iceberg, some impacts are more visible and some of which are less visible (Figure 4.3).

Figure 4.3 Tiers of Impact



Note. The blue line represents the 'waterline' with the mass of impacts sitting unseen underwater.

The tier one impacts are the current policy derived impacts. The tier two impacts are those that are side lined by current policy impacts. These are either already collected or are measures that could easily be collected. Many of the tier two impact measures are robust and standard, but not widely reported. The tier three impacts are a whole series of other impact measures grouped into three categories. These are measures that are possible, expensive and measures that are possible but not feasible. All three measures can be grouped into economic,

social, environmental, CDFI and miscellaneous (Table 4.6). The tier one conventional measures of impact that are required by policy funders are analysed firstly, by using the CDFA methodology, secondly, through the use of descriptive statistics and thirdly by dividing the research sample into the three categories of borrowers: ongoing, repaid and defaulted. Impacts are further explored within the cases studies outlined in Chapter Five. All three tiers of impact are explored in detail and statistically analysed in Chapter Six. The CDFIs lending process is explored in Chapter Seven.

Table 4.6 Tiers of Impact Classified into Economic, Social, Environmental, CDFI and Miscellaneous

Economic				
Tier 1	Tier 2	Tier 3		
		Possible	Possible but expensive	Possible but not feasible
Jobs created	Turnover saved	Exports	Circulation of funds	General wealth creation
Jobs saved	Gearing	Tax generated	Future credit worth	Poverty reduction
Businesses created	GVA created	Benefit spend saved	Procurement	Number of customers
Businesses saved	GVA saved	Personal wealth / Income		
Turnover generated	SROI	Bankability		
Finance leveraged		Tax cost per employee		
		Cost per job created/saved		
		Cost per business created/saved		
		Sweat wage / unpaid work		
		Capital expenditure/investment		

Social				
Tier 1	Tier 2	Tier 3		
		Possible	Possible but expensive	Possible but not feasible
	Gender	Wellbeing	Attitudinal impacts	Knowledge transfer
	Ethnicity	Confidence		
	Nationality	Entrepreneurialism		
	Age			
	Diversity			
	Ex offenders			
	Disabled			

Environmental				
Tier 1	Tier 2	Tier 3		
		Possible	Possible but expensive	Possible but not feasible
	Enterprise activities	Areas supported	Education of SMEs	Impact on competitors
	Green impacts	Timing of the loan	Supply chain support	Clustering of enterprises
	Sectors supported	Service to community		Education of other lenders
	Property/survivability	Alternatives used		Changes in strategy
		Family		Near market impacts
		Training/education		Lost opportunities
		Links to education		
		Property		
		Machinery		
		Apprenticeships		
		Networks		

Impact on CDFI				
Tier 1	Tier 2	Tier 3		
		Possible	Possible but expensive	Possible but not feasible
	Narrative case studies	Satisfaction with CDFI	Image of CDFI	
	Referrals	Recycle effect of repaid capital		
	Relationships	PR opportunities		
	CDFI learning	CDFI confidence		
	Defaulters			
	Failures			
Miscellaneous				
	Speed of loan	Business mentorship	Change behaviour	
		Market forces	Negative impacts	
		Business changing hands	Future impacts	

4.5.1 Analysis of the Current Tier One Impacts

This section starts to analyse the sample data from the 60 research participants by exploring the tier one impacts that are the main measures that are currently captured by CDFIs and reported upon by the CDFA. They are categorised and illustrated using the CDFA methodology (Table 4.7).

Table 4.7 Tier One Impacts of CDFI Borrowers

Impact	Measure	Outputs
Lending	Total	£1,550,186
Enterprises	Total	60
Jobs	Created	180
Jobs	Saved	242
Businesses	Created	17
Businesses	Saved	27
Turnover	Total	£28.42 million (a)
Leverage	Total	31 (b)

Note. (a) From 50 enterprises where turnover figures were available (b) Number of borrower enterprises that were able to access other funding, but funding figures unavailable.

Exploring the conventional measures of impact and the data set illustrates that the tier one impacts relating to jobs miss an obvious impact: that is the total number of employees *supported* by the CDFI lending. Enterprises from this sample employ 601 staff (including the principle borrowers). Calculating total

jobs minus jobs created minus jobs saved reveals that there are 179 jobs that have been neither created nor saved. The CDFI loan will have contributed to the continued operation of the enterprise, benefitting those employees. These jobs remain unreported. They also remain unexplored in terms of their additionality. The created jobs may be deadweight and may have occurred without the support of the CDFIs. Additionally the supported and saved jobs may have had a knock-on effect causing displacement elsewhere in the economy (McEldowney, 1997; Lenihan, 2004).

Considering the wider economy, another jobs related impact was also revealed by the interviews, in that, in addition to the 601 jobs supported a further 275 indirect jobs were also supported by the borrowers enterprises, 200 of these were for an annual festival lasting a week where many of the roles are voluntary, 40 others were attributed to a construction company that subcontracts work out as and when it needs to and 15 other were the foster carers linked to a foster care agency. Whilst these types of roles vary in terms of their impact to the economy and environment, they continue to go unreported. There are issues relating to how these types of jobs could be measured by CDFIs and the examples highlight some of the tensions that exist in using jobs as an impact measure. One of these tensions is that a job is not always permanent and might only be able to be described in the context of; number of person hours, weeks, months or years.

Calculating borrower turnover created and leverage proved to be problematic. Borrowers were happy to discuss the CDFI loan(s) but were generally wary of discussing other financial details. The turnover figures represent total turnover

rather than turnover created and were obtained from file data and borrowers that were happy to provide the information. Similarly, financial figures relating to access to mainstream finance, or other alternative finance were difficult to obtain. Many borrowers were happy to indicate whether they had or had not been able to access other mainstream or alternative finance. There are a number of ways that the tier one impacts can be further divided, such as by the characteristics of the sample or by the three categories of borrowers that indicate whether the loans are ongoing, repaid and defaulted (Table 4.8).

Table 4.8 Research Sample Tier One Impacts: Split by Category of Borrower

Impact	Measure	Outputs		
		Ongoing	Repaid	Defaulted
Lending	Total	£988,061	£411,125	£151,000
Enterprises	Total	38	15	7
Jobs	Created	83	92	5
Jobs	Saved	185	57	[17](a)
Businesses	Created	11	3	3
Businesses	Saved	18	9	0 (b)
Turnover (c)	Total	£19.9 million	£6.92 million	£1.6 million
Leverage	Total	17	11	3

Note. (a) Two enterprises were still trading having defaulted on their loans, and one of these enterprises was still employing 16 people. (b) Five borrowers felt that the loan saved their business at the time of the lending and two borrowers were unsure. (c) Turnover figures were available for 29 ongoing, 15 repaid and 6 defaulted enterprises of which 5 had zero turnover (the £1.6m turnover figure is accounted for by one defaulted borrower).

The figures indicate that the repaid loans have created the same levels of new employment for half the lending cost, when compared to the ongoing loans. Conversely, the ongoing loans have saved four times as many jobs. This is indicative that ongoing current borrowers are more focused on survival rather than growth: itself symbolic of the challenging economic times and conditions that CDFI borrowers have been operating in. The tier one impacts can be further explored by comparing impacts to the size of the loan (Table 4.9).

Table 4.9 Tier One Impacts by Loan Size, and Including Total Employees and Employees Supported

Loan size (000's)	Total		Jobs				Enterprises			
	Lending	Enterprises	Employees	Created	Saved	Supported	Created	Saved	Turnover (a)	Leverage (b)
>5	£19,500	5	13	4	5	4	3	2	£0.12m	4
>10(c)	£41,200	5	21	1	9	11	2	2	£0.76m	2
>20	£246,150	16	117	66	20	31	7	7	£2.3m	7
>30	£327,425	13	85	31	23	31	3	4	£4m	7
>40	£262,911	8	133	28	54	51	1	3	£6.2m	4
40+	£653,000	13	232	50	131	51	1	9	£15m	7
Total	£1.55m	60	601	180	242	179	17	27	£28.38m	31

Note. (a) Turnover figures from CDFI loan files, £40,000 discrepancy due to figures being rounded. (b) Leverage figures are number of borrowers that have been able to leverage in additional mainstream and alternative finance due to the CDFI loan. (c) Starts at loans of £5,001.

Splitting the tier one impacts by loan size illustrates that loans up to £10,000, appear to create, save and support far fewer jobs. These smaller loans are also a higher lending risk for CDFIs. Loans over £30,000 have the greatest impact in that they are supporting more employees and creating and saving more jobs. The turnovers of these borrower enterprises are higher than turnovers from small enterprises and this results in the larger firms having a greater impact within the economy. Another way to explore the data is to calculate the cost of creating and saving jobs by loan size (Table 4.10).

Table 4.10 The Costs of Creating and Saving Jobs by Loan Size

Number of loans	Loan size	Cost per job created	Number of jobs created	Cost per job saved	Number of jobs saved
5	Up to £5,000	£4,875	4	£3,900	5
5	£5,001 to £10,000	£41,200	1	£4,577	9
16	£10,001 to £20,000	£3,729	66	£12,307	20
13	£20,001 to £30,000	£10,562	31	£14,235	23
8	£30,001 to £40,000	£9,389	28	£4,868	54
13	£40,001 +	£13,060	50	£4,984	131

Looking at the tier one impacts in this way has implications for CDFIs individual future lending strategies. If a CDFI is interested in creating jobs then loans between £10,000 and £20,000 have the greatest impact. If a CDFI is interested in saving jobs, then loans of over £40,000 have the greatest impact. The figures also illustrate some of the complexity in using jobs as an impact measure. For larger loans over £40,000, it may be harder to identify new jobs that have been created compared to smaller loans.

4.6 Conclusions

This chapter has explored the principles of economic multiplier analysis and identified that CDFIs have been missing obvious impacts. This is due to the external pressures of embedded isomorphism that requires them to measure a limited number of impacts desirable to their funders. This raised the question of why an economic multiplier analysis has never been undertaken for CDFIs. The chapter argued that CDFI lending activity comprises only one aspect of CDFI activity and that identifying a typology of measures that could be used to assess the impact of CDFI lending activity is complex. There is a requirement for a framework of impacts that contains more than the current employment measures in the multiplier. This research will help to overcome this complexity and provide CDFIs with the ability to undertake an economic multiplier analysis by providing a series of measures that could be used as part of such an analysis of CDFIs in the future.

Normative isomorphism relates to how firms work towards becoming more professional (DiMaggio and Powell, 1983). Within CDFIs this occurs through

their membership to the CDFA and through them following best practice principles in an attempt to professionalise the sector. The CDFA collects and reports the impacts of member activity through Change Matters and Annual Reports. This benchmarking creates a notional criterion of where CDFIs should concentrate efforts to generate impacts. In essence, isomorphism occurs in a CDFI due to the various push or pull factors faced by CDFIs. These push and pull factors occur because CDFIs are embedded in networks consisting of funders, borrowers, other CDFIs and the CDFA, although, a CDFI can exist without being a member of the CDFA.

The routine way impact is measured means that there is less individuality in the way independent and distinct CDFIs are able to demonstrate their impacts. There is a standardisation to impact as a result of isomorphism and the professionalisation of the sector. A CDFI's impacts will be specific to the local geographic area of the CDFI and to the CDFI's own missions. To develop an understanding of the impact of a CDFI loan over and above the standardised impacts there is a requirement to explore borrower impacts in greater detail.

Given the variety of phenomena relevant to CDFI evaluation, there is a strong case for using a diverse range of indicators and methods in impact measurement. Chapter Five starts to explore and analyse the additional wider impacts, in the context of the current macroeconomic environment and in relation to the path-dependent routines that exist within CDFIs and borrower enterprises, to identify and develop an understanding of what some of those wider additional impacts might be.

5 CASE STUDIES: ILLUSTRATING THE IMPACTS OF COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

5.1 Introduction

The primary aim of this thesis is: to understand the organisational behaviour and performance of CDFIs as micro-lenders to financially marginalised enterprises and consider the role that routines and different expectations of impact have on their lending performance. The CDFIs and entrepreneurs will each have their own organisational behaviours and impact will have a different meanings for all stakeholders connected to a CDFI loan event. This chapter helps to develop a holistic understanding of what impact means for these stakeholders by exploring, through case studies, three different enterprises from the borrower interviews undertaken with 60 CDFI borrowers between March and August 2013. The three enterprises were selected based on the type of organisation that they were (two businesses and one CSO) and in accordance with a selection criteria. The case studies builds on the conventional impacts explored in Chapter Four by highlighting some of the path-dependent processes (Sydow *et al.* 2005; Martin and Sunley, 2006) of borrowers and CDFIs that result in the creation of additional wider impacts. Case study research ‘embraces the complexity of multiple variables and potentially uses a wide range of methods and sources of evidence in order to shed light on the phenomenon being investigated’ (Yin, 2003:14). It can be quantitative as well as qualitative. Becoming familiar with each case as an individual entity ‘allows the unique patterns of each case to emerge ... [and] ... gives investigators a rich familiarity with each case’

(Eisenhardt, 1989:540). Whilst a case study can be used in its own right, it is also useful when used as part of a mixed methods data analysis.

The borrower interview schedule explored nine themes: borrower background, enterprise activity, finance experience, purpose and use of loan funds, importance of loan, impact on employees, social impacts, personal impacts and satisfaction and referrals. The arrangement of each case study in this chapter follows a similar format. The case studies were ordered in this way to enable comparisons to be made between the different themes explored in the interviews. Ordering them in this way helped to identify the wider impacts that the CDFI loans had (or had not) produced and enabled the key contributions of the case studies to be discovered. For cases one and two, the first part outlines the timeframe of each loan, level of CDFI funding, initial impacts of the lending and assigns a pseudonym to preserve the anonymity of the borrower and enterprise. Additionally, there are accounts of the enterprise activities, its history, its client base and types of purchases made from suppliers. The second part provides a detailed account of the purpose and use of the CDFI loan. The third part explores the impacts of the lending. This is grouped into four categories; impacts on employees, social impacts, personal impacts and satisfaction, referrals and access to mainstream finance. The final part concludes with a summary of the case study. Case study three differs from this format in that parts two and three outline the initial impacts of the loan and the longer-term impacts of the loan respectively.

To help with the selection of the case studies, Section 5.2 starts by categorising the borrower enterprises by sector and loan size. Following this the selection of the case study enterprises is outlined and key characteristics of the selected cases study enterprises are illustrated. Section 5.3 outlines how the path-dependent decision-making processes of a manufacturing enterprise resulted in the enterprise owner placing the business in a position of uncertainty. This resulted in a series of events that eventually led to a CDFI loan and impacts. Section 5.4 explores a CSO that primarily generates tier two and tier three impacts. The case study highlights the complex nature of impacts and importance of timing in a CDFI loan. In this example, external path-dependent forces resulted in a requirement for the enterprise to adapt its operations. Section 5.5 explores a service enterprise that demonstrates a wide and diverse range of impacts covering all three tiers. The case study highlights the impacts of CDFI loans over time, that can result in adaptations to path-dependent processes. Section 5.6 concludes the chapter by arguing that the way in which CDFIs operate and their lending practice directly influences impact generation. Whilst different types of firms produce different impacts they also produce impacts which are similar.

5.2 Characteristics of Borrower Enterprises and Selection of Case Studies

This chapter explores, through qualitative case studies, the different CDFI borrower organisations to identify the presence of wider impacts. The strategy used for the selection of the case studies was maximum variation sampling. This is a purposeful sampling strategy that aims for heterogeneity between cases

(Patton, 1990; Strauss and Corbin 1990). Maximum variation sampling produces detailed descriptions of each case and can identify shared patterns that cut across cases. ‘Any common patterns that emerge from great variation are of particular interest and value in capturing the core experiences and central, shared aspects or impacts of a program’ (Patton, 1990:172). Aiming for diversity between cases, links to the chapter aim, as, by maximising the variation between enterprises, the number of different impacts will be increased. From these impacts similar additional impacts can be identified.

The data set can be categorised by loan size and into three different sectors, manufacturing firms, service firms and CSO. Service firms are the largest category contained within the sample (57%), followed by manufacturing (38%) and CSOs five per cent (Table 5.1).

Table 5.1 Loans to Manufacturing, Service & CSO Enterprises by Loan Size

Loan size	Manufacturing	Service	CSO	Totals
Up to £5,000	1	4	0	5
£5,001 to £10,000	2	3	0	5
£10,001 to £20,000	4	12	0	16
£20,001 to £30,000	6	6	1	13
£30,001 to £40,000	2	6	0	8
£40,001 to £60,000	8	3	2	13
Total	23	34	3	60

5.2.1 Selection and Characteristics of the Case Study Borrowers

Cases needed to have some element of complexity and to demonstrate wider impacts than the conventional measures of jobs and businesses created and saved. Three borrower enterprises were selected for case study analysis. There were four criteria for the selection of the business case studies. These were; the size of loan being £50,000, each case study illustrating lending to a different sector, each loan having been originated by a different CDFI and whether the borrower felt that the CDFI loan had saved the enterprise. To demonstrate the different types of enterprises that CDFIs lend to, a CSO borrower was selected to be explored alongside the two business enterprises. By selecting borrowers with loans of £50,000, the three case study borrowers represent 10% of the total amount lent to the participant borrowers. This resulted in ten borrowers initially being eligible for inclusion as a case study example (Table 5.2).

Table 5.2 Justification of the Selection of Case Studies from Borrowers with Loans of £50,000

No.	Code	CDFI	Sector	Business saved	
1	C32	ART	CSO	No*	Selected
2	C4	Impetus	Service	No	
3	C7	Impetus	Service	No	
4	C5	CWRT	Manufacturing	No	
5	C27	CWRT	Manufacturing	No	
6	C48	Impetus	Manufacturing	No	
7	C49	CWRT	Manufacturing	Yes	Selected
8	C6	Impetus	Manufacturing	Yes	
9	C55	Impetus	Manufacturing	Yes	
10	C54	Impetus	Service	Yes	Selected

Note. *None of the CSO borrowers felt that the loan has saved their enterprise.

The selected case study borrower enterprises were each given a pseudonym to preserve the anonymity of both the borrowers and the enterprise. The manufacturing firm and CSO that were selected both had ongoing loans and the service firm had a repaid loan. Additionally, the manufacturing firm had previously been in receipt of a CDFI loan, which had been repaid (for the characteristics of the case study enterprises Table 5.3).

Table 5.3 Characteristics of the Selected Case Study Enterprises

Case study	One	Two	Three
Pseudonym	Phoenix	Church	Charged
Sector	Manufacturing	CSO	Service
Status	Trading	Operating	Trading
Type	Hot forging (metals)	Church & Community Centre	Electrical engineering
Turnover	£3 million	£327,000	£1 million
Loans	2	1	1
Amount	£50,000	£50,000	£50,000
How loan(s) were used	Working capital & to fund project	Capital investment in property	Fund project
Repayment	Ongoing & repaid	Ongoing	Repaid

The case studies are not representative of the full extent of CDFI lending or of the full lending activities of ART, CWRT or Impetus. Additionally, the different enterprises are not representative of all enterprises within their sectors, for example the CSO is not typical of all CSOs. The cases illustrate the processes, events and decision-making that occurred by borrowers, which led to the CDFI loan event.

5.3 Case Study One: Path-dependency in Manufacturing SME Decision-making, Leading to a CDFI Loan, Impacts, Adaptation and Embedded Relationship

The first case study explores how a sequence of path-dependent processes (Sydow, *et al.* 2005; Martin and Sunley, 2006)) led to a borrower obtaining an initial CDFI loan of £50,000, which enabled the borrower enterprise to restart following its liquidation in 2009, preserving both the enterprise and 25 jobs. Since restarting the enterprise has stabilised, grown and recruited a further five people. Following the successful repayment of the first loan, a second CDFI loan of £50,000 was obtained in January 2013, highlighting how borrowers sometimes develop embedded relationships with CDFIs (Uzzi, 1997). This case study outlines a detailed account of the circumstances of the first CDFI loan and briefly outlines the requirement for the second loan and the impacts of both loans are illustrated. To preserve anonymity the enterprise is referred to as Phoenix.

An interview with the owner of Phoenix was undertaken at the borrower's factory premises in June 2013. The setting was in the borrower's boardroom, followed by a tour of the factory. The owner of Phoenix was a white British male aged between 45 and 50 at the time of the first loan. When asked about his experience in the industry the borrower stated: *'I've been in the business of nuts and bolts for 28 years, so man and boy really'* (C49, 27.06.13).

Phoenix is a manufacturing business based near Coventry that specialises in hot forging metal into nuts and bolts for the heavy automotive industry. The borrower further detailed this as for industries that design and build component parts for manufacturers of trucks and tractors. Phoenix has 'TS Accreditation' the automotive standard that means they can supply anybody in the automotive industry from first, second and third tier, through to the end customer. Major clients include Caterpillar, Cummins Engines and Perkins Engines. At present Phoenix is trying to expand its customer base, although this is proving problematic as the borrower outlined: *'the hard part about it, is most big companies have contracts with direct line feeders or suppliers so it's very, very, difficult to break in.'*

The borrower purchased the enterprise in 1999 from his previous employer. At this time the enterprise employed six or seven people and had a turnover of less than £250,000, which, over the years (and including the CDFI interventions) has steadily grown to 30 employees and a turnover of approximately £3 million. In the last five to six years the focus of the enterprise has changed, with a larger proportion of the business now focusing on 'upsetting' metal into custom shapes for clients. Phoenix makes two main purchases, machinery and materials in the form of steel. Older second-hand machinery dating from the 1930's to the 1960's is sourced in the UK whereas new specialised 'high tech' machinery is imported from Japan. The new machine (purchased in 2007) cost £150,000. Phoenix purchases the majority of its steel locally from a variety of sources. The borrower explained: *'we spread it [purchasing] because we just cannot afford to let*

somebody down on the basis that a supplier we are using just hasn't got what we need.'

5.3.1 Purpose and Use of CDFI Loan

Prior to the credit crunch, in 2007 Phoenix won a large contract to supply £270,000 to £300,000 of product. This required them to purchase new machinery costing £150,000, which was undertaken with cash reserves held by the company, although these cash reserves had been earmarked to cover tax liabilities. Phoenix hoped to quickly turn around the project and recoup the cash reserves and pay their tax liability. As the 2008 credit crunch started to hit, the customer that had placed the order froze all orders for six months and following that purchased only £11,000 of product. Phoenix was in trouble, as the borrower explained:

'We had robbed Peter to pay Paul and ended up in a right pickle. We approached the banks, our incumbent bank were very direct they just said 'no.' They didn't wait around they just had a week or two weeks before they said 'no' and then the other mainstream banks just kept me hanging on. There was no yes/no answer at all. Unfortunately the consequences were that unfortunately I had to liquidate the company in October of 2009 and I got the local MP involved because the main protagonist against the company, the one that wanted to do something

was the Inland Revenue. Despite offering them [HMRC] £50,000¹⁵ to give us a little more time, they said no we want it all.'

The HMRC applied the 'rulebook' in this case to Phoenix. Arguably, the funds that the borrower used were not his to spend on developing the business, as they had been earmarked to pay the HMRC. The background to the CDFI loan highlights an example of cognitive decision-making and risk-taking (Simon, 1993). In this case the borrower miscalculated the risks and as a consequence placed the enterprise in a situation of uncertainty. In doing so, the borrower risked the job security of the 25 employees.

Following consultation with solicitors, accountants and a local insolvency practitioner, the advice of the insolvency practitioner was to liquidate. This was based on the fact that in 2002, family members and the owner of Phoenix had lent the company some money and taken a debenture through Companies House over all of the assets and machinery to secure that money¹⁶. For ten years Phoenix had been renting machinery and premises from the family members and the borrower. This highlights an example of an established path-dependent routine that has become locked-in, within the cash flow of a business (Sydow *et al.* 2005). A consequence of liquidating was that HMRC were unable to touch any of the equipment, the borrower explained:

¹⁵ Following their initial approach to the CDFI, this would have been financed from a CDFI loan.

¹⁶ The personal ownership of the assets was classed as pension planning by the borrower.

'The date of the debenture meant that they [HMRC] couldn't even turn around and say that we had construed or constructed it in that fashion because it was long standing and the comment that we gave to the Revenue was in the last ten years how many times have we not paid you? You have always collected your money and now when I need a little bit of help you are being unreasonable.'

The borrower had been referred to the CDFI via his accountants and the CDFI initially offered £50,000 to be used as a partial payment to the HMRC. As the HMRC were unwilling to accept this partial payment the CDFI again offered a loan of £50,000 to re-start Phoenix. Alongside this, the borrower injected between £30,000 and £40,000 from his personal savings. There were still potential issues for Phoenix to overcome before trading could resume:

'Obviously we had to get over the issue of Force Major with some of our suppliers so the NewCo paid out 90% of the money that was owed by OldCo that was existing to the old creditors because we needed to trade with them to go forward and that's what we did – the only ones that we didn't take care of that were tied up with issues with big, big, organisations where you couldn't talk to anyone so you couldn't deal with those and one of them obviously that we would never take care of was the Inland Revenue because they were the ones that caused all the problems in the first place.'

Since restarting Phoenix has steadily recovered and grown over that last four years. The original contract that Phoenix took a risk on, by tooling up for,

eventually came to fruition: *'the contract that we originally signed with the big customer is great now.'*

The purpose of the second loan was for Phoenix to expand its operations having won contracts valued between £500,000 to £600,000 to supply parts to companies in South America. Phoenix approached the mainstream banks to obtain this funding and the banks again delayed their decision before declining to lend. South America is seen as a growth area for Phoenix with 20 to 25% of sales now coming from overseas. This is partially linked to the new machinery allowing products to be fashioned into custom shapes for clients. The CDFI agreed to lend a second time based on the mainstream bank not providing an answer for four months. This has resulted in further adaptation and the formation of new routine process (Martin and Sunley, 2006) which is to consider and approach the CDFI when attempting to access additional loan funds. That the borrower initially explored the opportunity to obtain the second loan from a mainstream bank prior to approaching the CDFI reflects the borrower's understanding of Profit and Loss (P&L) and the additional expense of a CDFI loan.

5.3.2 Impacts of the CDFI Lending

Whilst the background, rationale and purpose of the CDFI lending have been outlined and the conventional tier one impacts have been detailed, there were additional wider tier two and tier three impacts associated with the two CDFI loans to Phoenix, which are now discussed.

Social, Economic and Environmental Impacts

The CDFI loan preserved 25 jobs during a time when many people were being made redundant locally and nationally. The employees live, work and spend in the local community. The borrower lives, works and undertakes the majority of activities within 15 miles of Phoenix. The borrower and employee income not only contributes towards the local economy (NEF, 2008; Wood and Leighton, 2010) but in many cases goes towards supporting family members, ensuring that children and partners are afforded a lifestyle proportionate to their levels of income (Samuelson 2004; Heuting, 2011). The borrower clearly demonstrated empathy towards his employees and was quite adamant that saving the company prevented 25 individuals from seeking state benefits. He argued that 25 people claiming £5,000 benefits per year equates to £125,000, whilst the HMRC liability that forced the company into liquidation was for £167,000. This demonstrated a mis-understanding of the HMRC.

Since restarting the company has grown and is now increasing sales overseas, especially following the second CDFI loan. An additional impact of the CDFI loan has been that Phoenix has started to contribute towards the growth of UK exports, beneficial to the economy. Having increased the size of its workforce by 20%, Phoenix has provided job opportunities for low skilled job seekers. Phoenix's current strategy is to grow, driven by entering new markets and diversifying the range of products offered to existing and new clients. By adapting its existing routines (Martin and Sunley, 2006) and diversifying into new markets, there is potential for the creation of additional jobs in future.

Impacts on Employees

At the time of the liquidation employees agreed to work shorter hours in the form of a three day week as a trade-off that resulted in no redundancies being made. Working shorter hours enabled Phoenix to retain an experienced workforce as the borrower explained: *'losing the people is a knee jerk reaction and the problem is, what happens when it comes back?'* When asked about training opportunities for employees the borrower explained that Phoenix encourages training to those that want it and that employees are sent on courses including CAC and forklift training. The choice to undertake training is a personal one, as the borrower explained:

'We have some individuals that are willing to take things on and learn and it's those that we can actually address and do something with. In those cases the company will provide match or more in terms of funding to help them conduct those courses because at the end of the day it benefits the company, I mean you can't win them all because we have had two or three where we have trained them and then 6 months later they have gone, you know you can't really police that very easily. Whilst that's a lose [financial loss] for the company we are up skilling people, so it certainly helps whoever they go to next, so you've got two real factions within the business in terms of those who want to and those who don't want to learn.'

There was a mixture of skills within the Phoenix workforce, and a variety of different types of machinery used. Some date back to the 1930's and the machine purchased in 2007 was new. Both types of machine require different skill sets to

operate and service. There was a mixture of skills within the workforce at Phoenix. Some roles involve repetitive tasks that include heavy lifting and handling hot metals, and other roles are more specialised, involving the refurbishment, servicing and operation of machinery. Employees have the opportunity to undertake training. Alongside managing the enterprise, the borrower came across as very hands on having been working out on the factory floor prior to the interview; he also undertakes the majority of the sales activity.

Personal and Family Impacts

When questioned about some of the personal impacts of the CDFI loan, the borrower indicated that the restarting and stabilising of Phoenix had a large impact on reducing his stress levels and on his family, without the loan:

'The impact on the two or three youngsters here and certainly on my kids would have been completely different...I was personally under a great deal of stress at the time... I wouldn't wish it on anybody not just what it does to your own family but when you have got over 20 people relying on you for their income, it can get very heavy.'

A CDFI loan can have an extended reach affecting not just the borrower and employees of an SME, but also wider family members. The borrower's wife has a small involvement with Phoenix, undertaking some paid accounting work for the company from home. Although, without undertaking an interview with the borrower's wife it is difficult to know exactly how the liquidation of the business and CDFI loan would have impacted on her, there would have been an economic

impact on the borrower's wife as the borrower outlined that: 'in 2002, my wife and I injected cash into the business.'

The interview for this borrower was a cathartic experience. At the end of the interview but recorded within the field notes the borrower stated that undertaking this research interview had enabled him to express his thoughts and fears to someone neutral and non-judgmental. He was glad to have the opportunity to review the events of the previous years and rationalised his actions stating about the loan: *'I'd got a helping hand to solve the problem that some people would say yes it is of your own making but I am not here to stand still, I'm trying to grow, I'm trying to make what we have got better.'* Reviewing the CDFI loan files revealed that the borrower has a high personal net worth and currently draws a substantial salary from the enterprise. During the interview the borrower indicated that a large proportion of personal drawings are being used to replace the capital that he and his wife injected into the business during the restart. This is being undertaken to ensure that he has cash reserves should Phoenix require an injection of cash in the future.

Considering the impacts on the borrower and his family highlights some of the wider tangible and intangible direct and indirect impacts of CDFI lending from the three tiers of impact. These include impacts such as the economic welfare of the borrower relating to the level of prosperity, standard of living and utility (Samuelson, 2004) and also evidence of the loan having an impact on the stress levels, self-esteem and confidence of the borrower and the individuals connected to him (Vanclay, 2003; Copisarow, 2004; Hueting, 2011).

Satisfaction, Onward Referrals and Mainstream Banking

Overall the borrower was very satisfied with the funding he received from the CDFI, although there was one critical comment: *'I think the paperwork side of it was more involved [the second time around] it didn't seem as organised from the outset I could only describe it as messy.'* The borrower has not referred anyone to the CDFI although he indicated that he is currently talking to two separate people that have business ideas, which might be eligible for CDFI funding and he plans to refer them if he thinks that CDFI funding will help them.

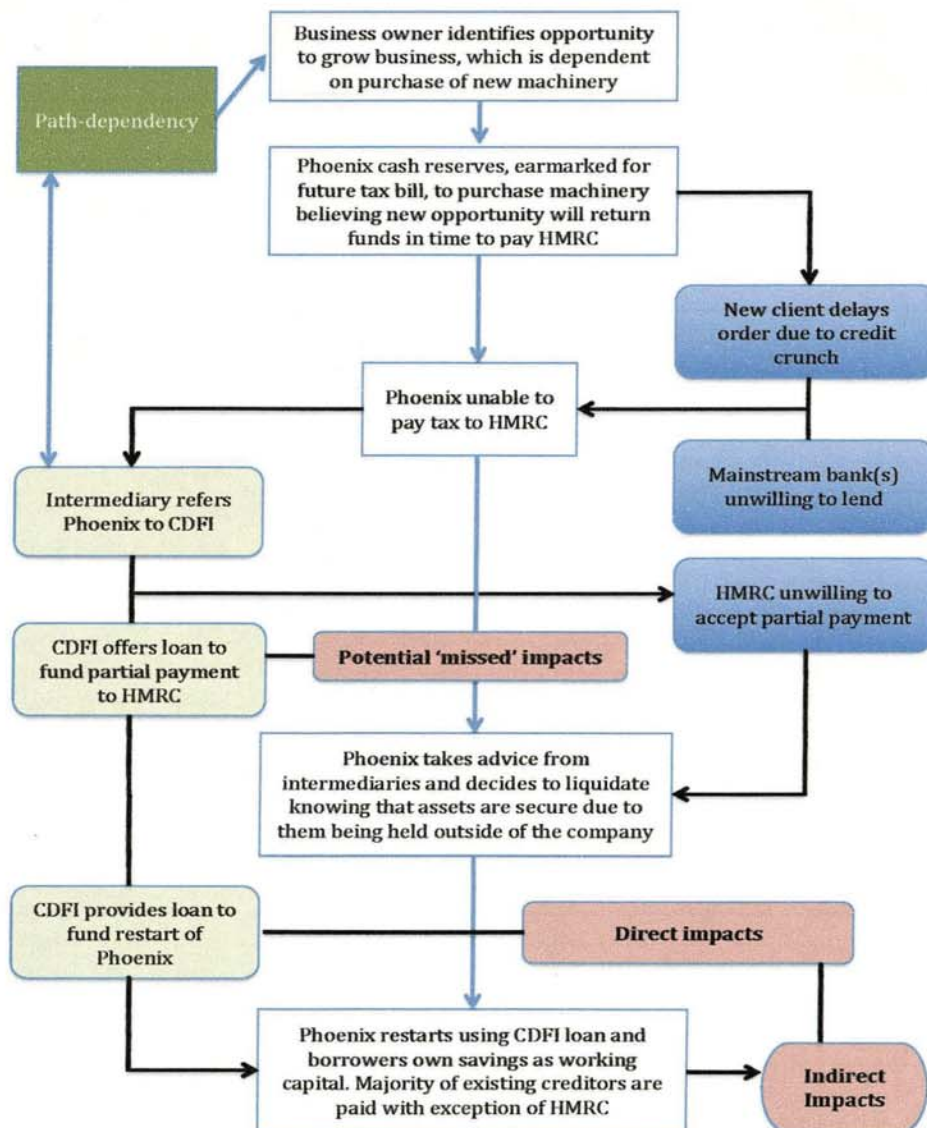
The borrower's relationship with his mainstream bank has been problematic. The second CDFI loan (agreed in December 2012 and drawn down in January) was issued due to Phoenix's incumbent bank delaying financing from September 2012 through to December 2012, jeopardising the large contract with South America and costing Phoenix £150,000 worth of sales. This again caused personal stresses for the borrower:

'I was stressed out I wasn't sleeping at night it was nearly as bad as being liquidated because I had got a customer who was being frustrated because he couldn't get his bits. I'd got a contract that I had signed which is until June 2017 so I have still got another 4 years to run. I said its all guaranteed for goodness sake and they were coming up with some excuse that some numpty in some credit team was saying no because of xyz...'

Phoenix had been on a factoring agreement since 2002 with its incumbent bank, which it now changed to a new provider in early 2013. The actions of changing

the factoring agreement and organising financing from the CDFI caused the relationship with its bank to completely break down, with the mainstream bank threatening to freeze Phoenix's accounts: *'I had the local manager come in and threaten to close the bank account... I said you haven't got the factoring...this is just bad grace because you have been given the elbow.'* This threat proved to be a step too far for the borrower who has now moved all accounts and mortgages to a new mainstream bank. It is likely that financing will remain problematic as other than the mortgage and factoring the new banking facility only offers a clearing account at present. The CDFI loan to Phoenix was a result of a series of path-dependent decision-making processes, which led to impacts (Figure 5.1).

Figure 5.1 Decision Tree for Phoenix Illustrating Internal/External Forces and Outcomes



Note. Colours, white = narrative of the loan event, blue = external forces, green = CDFI actions, red= impacts, blue lines = borrower actions and black lines = external forces actions.

5.3.3 Risk-taking, Timing and Adaptation

The Phoenix case is primarily about speculation, timing and adaptation. It highlights the role of risk taking and in this case poor judgement. This was in relation to a problem with timing and the phasing of the risk decision in the context of an obligation that needed to be met to a third party. The borrower took a risk on undertaking the original deal. This risk jeopardised Phoenix and resulted in a series of path-breaking events. Through taking comprehensive advice, being financially astute and being quite shrewd in the original allocation of assets, the enterprise has survived, with the help of the CDFI loan. This survival was a result of the borrower adapting to the situation and that adaptation has led to the formation of new routines for the borrower and impacts for the CDFI.

The CDFI funding resulted in wider tangible and intangible direct and indirect impacts from all three tiers of impact being created. These benefitted the borrower and people connected to the borrowers, and led to increased exports overseas and the continuing growth of Phoenix. For the CDFI, the embedded relationship (Granovetter, 1985) that has formed with this borrower means that it has added a relatively low risk client to its loan portfolio. There is perhaps some irony in Phoenix being supported by a Government backed CDFI, when it was a government institution (HMRC) that forced Phoenix to take the only option left available to it – liquidation.

5.4 Case Study Two: Path-dependency and Adaptation: Loan Timing and Complex Impacts

The second case study explores the impacts of a CSO based in the West Midlands that operates as a Church and Community Centre for the Afro Caribbean community. Alongside offering a place to worship the Church engages in a wide range of charitable and community projects. In 2009, the Church obtained a £50,000 CDFI loan over five years, which is ongoing but due to be repaid in 2014. This loan facilitated a move to larger premises and enabled the expansion of the existing activities along with a wide range of new activities.

The borrower was a male of British Black Caribbean ethnicity aged between 50 and 55 at the time of the loan. The interview was undertaken at the Church, in August 2013. Following the interview a tour of the facilities was given along with the chance to informally chat to some of the employees.

The Church performs religious services at its main premises as well as at local hospitals and prisons. For the prison service, a programme is run for offenders who are due to be released, which helps them to prepare to re-join society. In addition, the Church also offers within the community a large number of charitable activities and services including marriage support, sign-posting and counselling, the community centre, support to the young in the form of a youth centre, undertaking its own wide range of activities, and a food bank. The Church's regular outgoings are simple, the majority being utility costs, general office expenditures, staff salaries and finance repayments. These are covered in two ways. Firstly, the Church pays for the borrower to minister and preach.

Secondly, additional income is generated through donations made during services along with other charitable donations. The Church is proactive in applying for grants and at the time of the loan the Church turnover was £327,000.

The borrower is currently a bishop. Having become a born again believer as a teenager in 1971, throughout the 1970's the borrower gradually developed a Church in Staffordshire. Being appointed deacon in 1976, married in 1978, and made a junior Minister in 1979 the borrower moved to the area in 1981 and was based at a small Church for 28 years. During this time the Church developed as the borrower explains: *'in 1987 I was ordained an elder and that means I was a fully ordained pastor of a Church and from there we remained and the Church grew and grew from about 8 people back then it grew to about 150'* (C32, 15.08.13).

5.4.1 Purpose and Use of CDFI Loan Funds

By the late 2000's the Church had grown too large for the site it had occupied since 1981. With parking and noise becoming concerns for the Church and surrounding community, the Church adapted and relocated to a temporary new site for several months whilst it searched for a permanent new location. Moving to its current premises in 2009 on a lease to buy deal, the Church sought finance in the form of a mortgage from its bank, with which it had banked with for 25 years. After valuing the building the bank declined to lend at a time when finding a source of finance became more urgent, as the borrower explained:

'If we hadn't finished the deal we might have lost our deposit plus the building and of course we were already in a building that we had leased to buy, and the company that owned it went bust, when the receiver came in they wanted £890,000 for the building but we bought it for £550,000, so it's a blessing really.'

Prior to approaching the community bank, the borrower approached a Christian bank, which at the time did not have funds available to lend. This bank later came back when they did have funds to lend. By this time the required finance was in place. Another community bank agreed a mortgage of £500,000 and the CDFI funds of £50,000 were then obtained to cover the shortfall. Whilst this funding represented a small percentage of the overall borrowing it was considered important as explained: *'I'd have to say really it was essential because at the time, if we hadn't had the £50,000 that we needed, we couldn't have moved forward.'* Whilst the CDFI funding was clearly important to the Church, in this case the CDFI cannot claim leverage as an impact, as the mortgage agreement was in place prior to the CDFI loan. This highlights the additionality of some CDFI lending.

Having secured new premises the Church had a large space to expand its activities. Obtaining a £350,000 grant from the Big Lottery Fund to develop the site, they have spent £300,000 converting a large part of the building into a community centre. An independent evaluation of the Big Lottery Fund grant was undertaken and the bishop was clearly proud of the positive feedback contained within the report and the eligibility for more funding in future. He explains: *'if*

you can manage government money or lottery money and its big money £350,000 and the first time you manage it successfully then it is more likely that they will support you financially again.'

5.4.2 Impacts of the CDFI Lending

The impacts of the CDFI loan are twofold. Firstly, the finance enabled the Church to complete the purchase and prevented them from losing their deposit on the lease to buy deal. Secondly, the expansion created the opportunity to expand and provide additional support to the local communities within the local area. Two statements made by the borrower during the course of the interview were: *'the Church should always have reserves of cash to help those in need'* and *'the Church should be the loudest voice in the community.'* These statements can be used to illustrate the impacts of the CDFI loan. The move to larger premises and expansion is helping the Church to achieve these two stated aims. The larger venue allows for larger congregations (and larger collections) and the community centre is bringing new people some of which bring additional income and others that benefit from charitable services. The borrower provided figures for visitors since the community centre opened (Table 5.4) and stated *'without the money from them we couldn't have moved and we have thousands of people coming through the door now.'*

Table 5.4 Community and Youth Centre Usage 2011 to 2013 between 9am and 5pm Monday to Saturday

Year	Community centre	Youth centre	Totals
2011	3,752	n/a	3,752
2012	3,376	1952	5,328
2013*	2340	682	3,022

*As at the date of the interview.

These figures do not include Church services, evenings or Sundays and visitors are not just from the local area: *‘we’ve got so many people come through here it’s amazing and people come from all over to view our centre – we had some people come from Luton some from Nottingham, some from London just to see what we were doing.’*

Social, Economic and Environmental Impacts

The move to the larger premises allowed the Church to expand the community projects and charitable work that it undertakes and it has done so on a large scale, outlined by the borrower:

‘There is the food bank. We have the children’s youth club company on Wednesday and Thursday evenings plus they are here during the daytime for support and mentorship. We have a music studio...they use that for the community and schools use it for children. Some came here because they couldn’t do maths efficiently, so what they do is they come and rap the words or the letters and then recall and have

better results in maths. So the schools use it. Then right now we are currently working on a film that the young people have written themselves about youth in the community, youth at large, so that will be coming out in October made by them, written produced and filmed by them. Then we have got the young people who come in to learn how to write, we also have a work sign...where the kids can have a conversation about issues at large and also rap about that if they want to as well, its good clean stuff. One guy got on YouTube 200,000 hits about what he was rapping about and we have a young people's business enterprise as well.'

Speaking to the administrators during the tour, I asked about the food bank and in particular the numbers that are supported by it. Currently the Church is helping 15 families per week with food parcels. An additional social impact is that the premises have themselves been saved from falling into disuse. It is possible that the building might still have been developed although this would have taken time due to the site being located in an awkward position. During this time the empty building could have attracted antisocial behaviours that can be associated with derelict buildings, such as increased crime and drug use.

Impacts on Employees

The CDFI loan files at application stage claimed that eight jobs would be created by the loan. At the time of the interview, there were two full time employees, two shared jobs, one consultant working in the studio and the borrower's wife

helping run the Church. The borrower is not paid by the CSO that he runs; instead the diocese pays his salary and he would continue to have a job regardless of the loan. The two job shares employ four people part time, which should be recorded as two full-time equivalents (FTE). The FTE should in this case be six jobs and not the eight claimed by the CDFI. The paid employees generate the same multiplier impacts as the employees outlined in case study one, in that they all take home an income that helps to support their families and lifestyles. Their skillsets are arguably more versatile. Had this enterprise not started and they were in a situation where they needed to seek work they should, in theory at least, find this easier than others with either low skillsets or highly specific skillsets. The studio consultant would find it either very easy or very difficult to find suitable employment; dependent upon the number of studio related jobs there are within an area or timeframe. One of the job share employees is currently a student studying law. In addition to the paid staff, there are a number of unpaid volunteers involved in the Church. A number of these volunteers are family members of the bishop, which highlights some of the indirect impacts:

'My daughter is a worship leader – she doesn't get paid. One of my sons plays music – he doesn't get paid. My brother does work for the Church, but he does not get paid by the Church, his wife is also a minister and she volunteers; my son in law volunteers.'

Employees and volunteers are provided with training in management, first aid and working with young people. For the types of activities undertaken by the community centre much of this training is a mandatory requirement.

Personal and Family Impacts

There is clearly a large family involvement in the Church and the weekly routine of undertaking services and engaging with the community is little changed from moving premises. The bishop continues to live close to his Church believing that this should always be the case. When questioned about the personal impacts of borrowing, he replied:

'Now we had got a mortgage and a personal loan and we have got to make sure that we secure the Church and get the people to come through the door to help pay the loans because obviously we rely on people giving to pay the mortgage. So there is a little bit of stress because if things don't go the way you visualised and they go the other way then the premises concerned and the money invested in it that would be lost so its pressure, no one should be happy until they pay off their debts.'

The stresses associated with borrowing large amounts of money are similar to any business enterprise, as this borrower was keen to indicate:

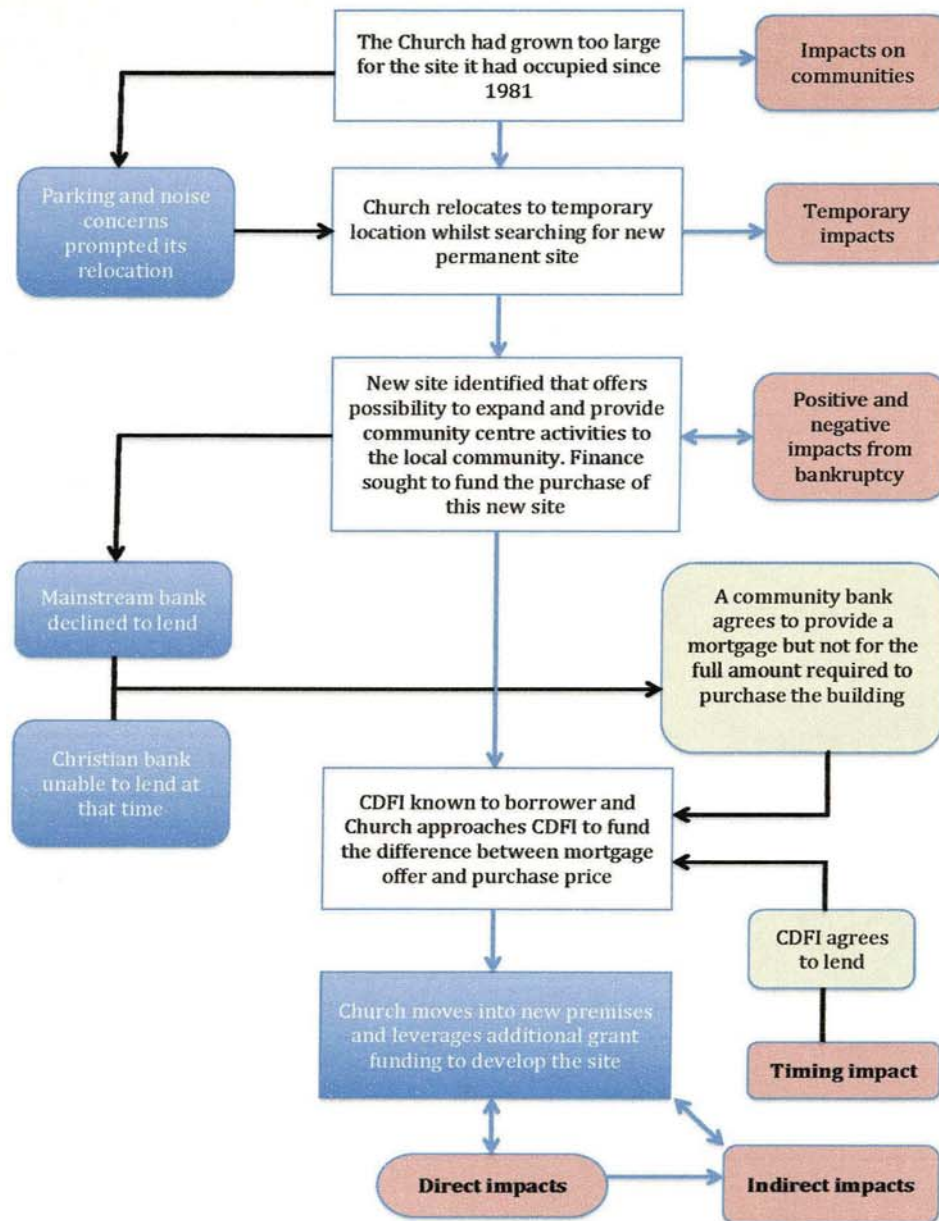
'On one side I'm teaching and preaching but on the other hand I'm trying to make sure we have ideas. The Church is a little like a business, it's just that I say I have to do my father's business... it isn't about me or my game, grabbing and taking – it's about God's Kingdom.'

Satisfaction, Onward Referrals and Mainstream Banking

The borrower was extremely satisfied with the loan from the CDFI: *'It's a great thing to have in the community nearby who understood where we were going and*

what we were about...so they were a good friend to us.' When asked about referrals, the borrower replied: *'I've assisted many Churches with my council and advice'* believing that CDFIs should engage with other Churches as: *'I don't think Churches recognise that [CDFIs] exist to help them as well – I think folks see [CDFIs] as a business kind of thing.'* The borrower's relationship with its bank has remained cordial. When initially applying for the mortgage: *'they gave us a huge run around really and then said no.'* Once the community bank agreed the mortgage and the premises were purchased, the mainstream bank, *'came back to us and said why don't you give us the mortgage? – We said no we have already done it.'* The loan to the Church highlights some of the wider nature and complexity of impacts and the importance of timing in creating impacts (Figure 5.2).

Figure 5.2 Decision Tree for Church: Illustrating Internal/External Forces and Impacts



Note. Colours, white = narrative of the loan event, blue = external forces, green = CDFI actions, red= impacts, blue lines = borrower actions and black lines = external forces actions.

5.4.3 Adaptation, Timing and Complexity of Impact

The loan to the Church highlights a complex array of direct, indirect, induced and dynamic impacts occurring at different times, on different groups. Many of the impacts are intangible and difficult to quantify economically. The Church had an immediate time problem, due to circumstances beyond its control. The bankruptcy of the business that it entered into a lease to buy scheme with, coupled with difficulties in obtaining finance at that time posed a very real risk to the Church, in what could be seen as a path breaking external shock (Sydow *et al.* 2005). Adapting by obtaining funds from a community bank only partially solved this problem and the CDFI loan was a timely intervention that provided a solution. Ultimately, the Church benefitted greatly from the bankruptcy, saving £340,000 on the original asking price for the building. This highlights that some impacts, such as the reuse of the property resources by the borrower, can be idiosyncratic which makes them difficult to quantify and measure.

Having successfully purchased the premises the Church has managed to obtain additional grant funding and developed a valuable and sustainable enterprise for the ethnic minorities, in particular the Afro Caribbean community in the area. This diversification resulted in new path-dependent routines (Martin and Sunley, 2006) being established, that involved additional expenditure within the local economy and led to an enhanced sense of social harmony within the communities of practice (Wenger, 2008) that are engaged with the Church. With the five-year loan due to be repaid in 2014, the case illustrates that lending to Churches (and other CSOs), when undertaken correctly, can have a successful outcome for both the enterprise and CDFI.

5.5 Case Study Three: Path-dependency, Path Adaptation and Impacts

The third case study explores the impacts of one such enterprise that since repaying the CDFI loan was partly sold to a larger international business, resulting in high levels of growth and impact. The interview was undertaken in August 2013 at the borrower's business premises in Shropshire. The borrower was a female of white British origin and aged between 40 and 45 at the time of the CDFI loan, which was provided in 2010. The enterprise specialises in electrical engineering solutions and for the purpose of this case study will be referred to as Charged. In 2010, Charged consisted of three people, the borrower, her husband and an engineer, working from a home office/storage unit. The main purchases have remained constant and include equipment from the USA and Italy. Other large purchases include packing, shipping and transport costs. Following its formation the owners of Charged had a number of small clients, and a vision to grow.

5.5.1 Purpose and Use of CDFI Loan Funds and Impacts

Charged won a contract and had a signed purchase order for 650,000 Euros from a large transnational supermarket. This contract involved installing equipment in a distribution centre in Poland. To purchase equipment Charged are required to pay their suppliers 50% upon shipping and 50% 60 days after shipping. They required £100,000 to fund the project to make these payments. The mainstream banks were unwilling to lend based on the borrower's low levels of equity. After

consulting with Business Link¹⁷ Charged discovered the CDFI whilst researching options for raising the required capital. Approaching the CDFI, Charged was able to obtain £50,000, the maximum the CDFI could lend at the time. When asked how they managed to obtain the full £100,000 required for the project, the borrower explained:

'We kind of strung everybody out, chased money in because obviously it wasn't just [the supermarket] we were dealing with. The money was for this deal in particular, so it was chase, chase, chase, the money in, we were being really harsh in chasing the money, which isn't a particularly good strategy either with our long term customers. I was stringing out our suppliers at the time and they were being really good actually, so we did have some support from a lot of people but it was a stressful few months' (C54, 07.08.13).

Charged managed to overcome the difficulties and the CDFI loan was repaid three months later. For the CDFI at the time the impacts were that the loan saved the enterprise, saved three jobs, generating turnover and profit. The benefits to the CDFI were that the funds had been quickly recycled and were available to lend again without the attached funder KPIs.

5.5.2 The Longitudinal Impacts of CDFI Lending

Three years later and Charged is a very different company. The initial CDFI funded project had allowed Charged to continue its relationship with the large

¹⁷ Business Link directed Charged towards a Government loan scheme but the borrower was hazy about the exact details of which one it was. She did know that because they were shipping straight to Poland they were ineligible for support from that scheme, as they were not adding value.

supermarket, which flourished: *'we have just done a project for them in Thailand earlier in the year so we have done work for [the supermarket in] Thailand and China, Malaysia, Korea and Poland.'* Although it continued to find financing these projects difficult, due to an inability to obtain an appropriate level of finance from mainstream banks and the scale of the finance required to capitalise these projects was, and is, beyond the size and scale of CDFI lending. Two years after the CDFI loan Charged sold a 90% stake to one of its main suppliers. It now became the sole distributor for their equipment in the UK. Clients range from small local enterprises, through to transnational companies. The service offered by Charged is now far more appealing to its customers:

'What we offer to the customer now is a full project and we couldn't do that before, we just offered parts of it and a lot of them just want you to do it all. All in one place, that's [the product] sorted, if it goes wrong we know to ring you.'

Without the initial CDFI loan, Charged might not have reached the scale where the transnational company would have bought it. Had Charged not been able to complete the initial order for the supermarket, the borrower outlined that it would have been highly unlikely that they would have been successful in obtaining future orders:

'Well if we hadn't of had the loan we couldn't have done the deal with [the supermarket]. I don't know how we would have financed it and so we wouldn't be here today because at the time probably about 70% of our revenue was coming from [the supermarket] and if you suddenly

say we can't do it, because we can't finance it, they are not really going to give you any more work are they?'

It is arguable that the success of Charged can be attributed, in part, to the original CDFI intervention.

Access to finance is less difficult for the enterprise now that funding is supplied by the parent company. In one case this included a project that saw £400,000 worth of stock being sent from Italy. Despite this, access to UK mainstream finance remains problematic and worsened: *'we don't have an overdraft. [The old company] had an overdraft facility of about £7,000, but because [the new company] is a new business I don't think we have got a facility at all.'*

Social, Economic and Environmental Impacts

The growth of Charged has involved a move to new modern industrial premises on a business park on the edge of the market town where they are based. The large warehouse and offices are far removed from the initial business, run from home. The partial sale has also enabled the enterprise to expand into Ireland, where it employs a sales manager to develop exports. When asked about social impacts of the CDFI loan the borrower focused on employment, exports and rates, highlighting some of the wider direct, tangible and measurable impacts:

'We've been able to employ locally because I don't think the business would have gone beyond where we were at, which means we wouldn't have joined [the parent company]. So when you put all that into the mix, we have employed five more people locally, the two sales guys

aren't, one lives in Bristol and one lives in the Midlands and the guys over in Ireland are obviously from Ireland... We are paying rates on a building that was empty so the Council is benefitting from it.'

There are potential environmental impacts with some of the products manufactured by the parent company being ecologically friendly. Whilst this is a small part of the business at present, Charged would like to increase sales of ecological products. Charged is generating export revenue, through its expansion into Ireland, and through the activities that it undertakes helping UK clients. Some of the clients that Charged deals with are exporting their products abroad directly from the UK, others are generating income from large-scale overseas operations, that generate revenue from local markets. As Charged is helping develop its clients overseas operations, making them larger, more efficient or expanding into new markets, then they are helping increase revenue that comes back to the UK.

Impacts on Employees

Charged now has a total of 12 employees, three directors (including the borrower), three engineers, three salesmen, two administrators and one warehouse operative. Its growth has created eight jobs, five of which are highly skilled. There have been training opportunities to:

'Well we have done...management days training. We have done first aid training and we have to do manual handling, regulation training and asbestos training to comply with all the things we need to comply

with...[an administrator] is also doing an accountancy course so we contributed towards her fees last year and will probably do the same again this year.'

Personal and Family Impacts

When considering the personal impacts on the employee there are three considerations, those of what the borrower said, what was seen at the interview and what can be deduced from what was seen and heard. As with the previous cases, stress relief was mentioned: *'Well obviously...it was a massive relief because we really believed in the project and it was still a stressful time because we had made a commitment to...a repayment schedule and obviously projects get delayed and we can't invoice until its completed.'* The borrower lives within five minutes of premises but spends long hours away from home and her children. Whilst at work and when abroad childcare is picked up by the borrowers parents as the borrower explains:

'Well my parents help a lot with the children [they] are here this week...looking after the kids. That enables me to do my job so they are a massive support because if they weren't there I wouldn't be here. I have to go to Italy a few times a year which is a few days away and we did a big exhibition in March and my parents have supported so I could do that.'

This support helps the borrower to develop and grow her enterprise, although, it may come with a cost that is positive or negative on the wider families wellbeing.

There are risks and stresses associated with both parents running a business together. Had the business failed through lack of finance (or should it fail in future) the impact on family, income and standard of living would be double that of only one family member losing their income. The borrower stated that she (and presumably her husband) earns more now than previously, and there were clear signs of a prosperous lifestyle (Hueting, 2011), such as an expensive new car. When questioned about why the banks were unwilling to lend the borrower responded: *'because we have got no assets, we've got no equity, well we had some equity but not enough; it's all gearing isn't it?'* Considering the continued lack of mainstream bank support, there is perhaps an element of this borrower engaging in risk-taking activity in the hope of gaining financial return.

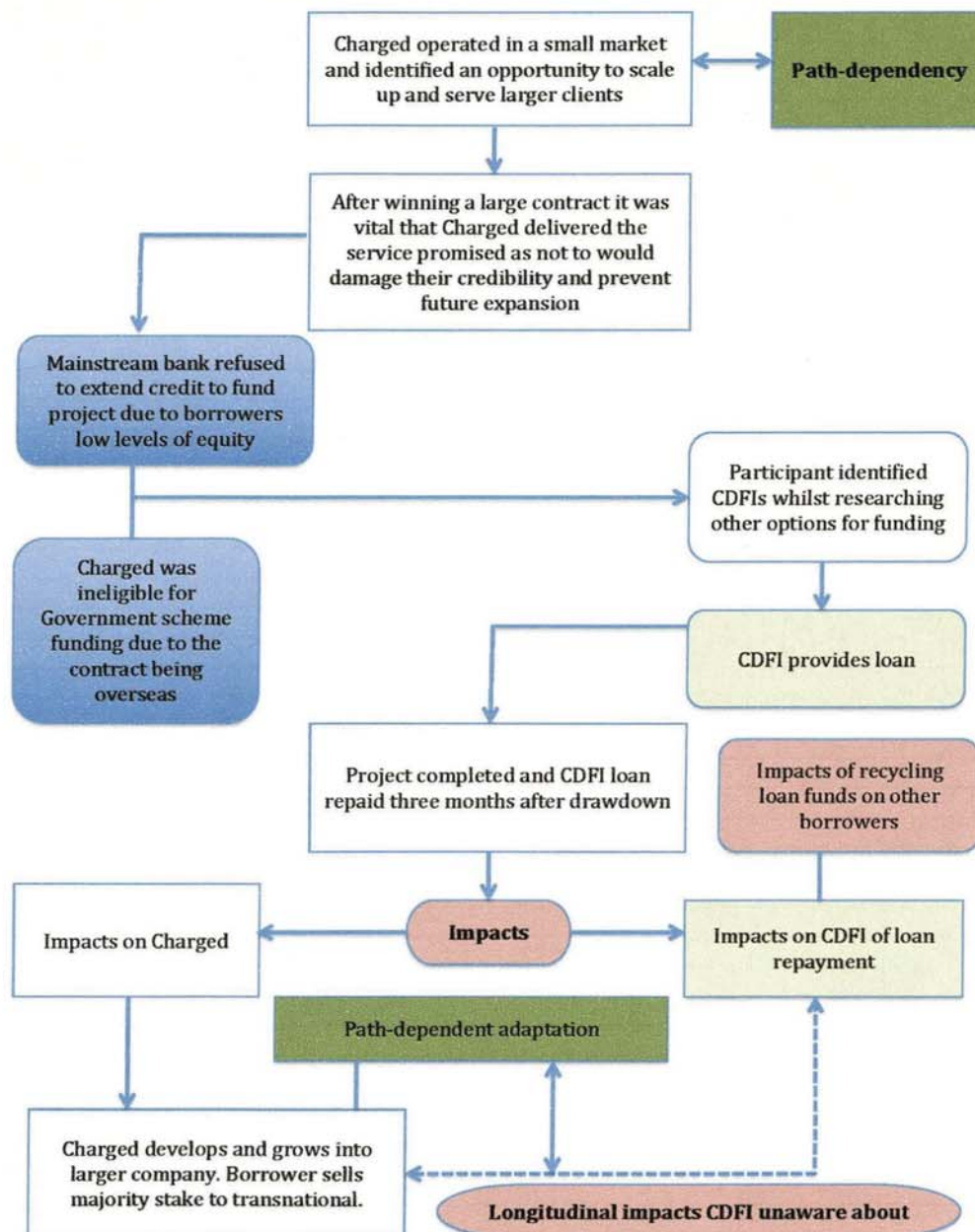
Satisfaction, Onward Referrals and Mainstream Banking

Having found the CDFI through an Internet search, the borrower was very satisfied with the loan and application process. She was pleased to have paid it back on time *'we paid back when we were supposed to. I know [the CDFI] was pleased because it was the maximum that they could give.'* During a later meeting with the CDFI it became apparent that they had no idea of the success and growth of Charged. This shows that whilst relationships between CDFIs and enterprises are strong during the course of successive loans, they cease once the enterprise no longer requires financing.

The loan to Charged occurred after a series of path-dependent routines (Sydow et al. 2005) were interrupted when the mainstream bank declined to lend. The

borrower was able to adapt by identifying an additional finance provider and develop her business. Further adaptation occurred through the sale of a majority stake in the business and through the sale the enterprise has become locked-in to new routines (Stack and Gartland, 2003; Martin and Sunley, 2006) and these routines have resulted in the creation of impact (Figure 5.3)

Figure 5.3 Decision Tree for Charged Illustrating Internal/External Forces and Impacts



Note. Colours, white = narrative of the loan event, blue = external forces, green = CDFI actions, red= impacts and blue lines = borrower actions.

5.5.3 Idiosyncratic Routine Behaviour: Timing and Wider Impacts

The loan to Charged was relatively straightforward at the time. It was for a large amount over a short duration and the loan involved a short loan process, which often leads to enhanced loan performance (Derban *et al.* 2005). These types of loans can be beneficial to CDFIs, as Government funding that is repaid by borrowers becomes an asset of the CDFI that no longer have political KPIs attached to them. Repaid loans enhance a CDFI's ability to lend towards their own personal missions. Currently, obtaining finance is easy for Charged: *'if we need to borrow any money we borrow it from Italy'* but access to UK mainstream finance remains problematic. This is surprising, given the enterprises track record of growth throughout the hard economic times in recent years and access to financing from Italy. Although it could also be argued that having a foreign business take all of the finance risk is beneficial to the UK economy and British mainstream, alternative and additional providers of finance.

The Charged case study highlights one of the idiosyncratic routines (Nelson, 2002; Frenken and Boschma, 2007) that exist within CDFI lending activity. On occasions, a CDFI will lend to a relatively low-risk enterprise to benefit from being able to recycle policy loan funds quickly. It illustrates that direct impacts can occur at different times and that these impacts can still be traced back to the original CDFI loan event. The origins of the growth of Charged lie in the provision of the CDFI loan and ultimately the CDFI loan allowed Charged to undertake a phase of expansion and growth. Without the loan and subsequent successful completion of the large project, the borrower indicated that Charged might have failed. The full wider impact of this loan was only recordable a long time after the

event, and in this case, had not been recorded by the CDFI at all. Longitudinal impacts of loans could occur for other CDFI loans. There is perhaps scope for CDFIs to explore the feasibility of measuring impact over longer periods in future. This case also highlights that the scale of CDFI lending is sometimes too small for some enterprises.

5.6 Key Contributions and Reflections from the Case Studies

The case studies illustrate several things. These relate to; risk, idiosyncrasy, the wider nature and tangibility of impacts, the reach of impacts, timing and adaptation. First, the cases studies demonstrate something about risk and the level of risk-taking of borrowers and CDFIs. The story behind Phoenix showed how miscalculating risk could lead to a series of events that ultimately placed the firm in a precarious situation. In this case an external shock in the form of the 2008 credit crunch interrupted the routine path-dependent processes of the enterprise (Sydow, *et al.* 2005) when clients delayed and cancelled orders. The borrower with the help of the CDFI loan was able to overcome this and renew the broken down paths (Martin and Sunley, 2006). CDFIs attempt to avoid risk by lending to viable propositions. The three case study loans were relatively low risk lending. The loan from Impetus to Charged demonstrated that CDFIs sometimes take risks in their lending. In this case, the risk was lending an amount that only covered half of the project costs and relying on Charged to either raise the additional capital or manage their cash flow effectively to make the project a success. The return that Impetus hoped for was that a successful project by Charged would quickly repay the loan.

Second, the quick repayment of a large loan with a short duration, shown in the impetus loan to Charged, highlights one of the idiosyncratic routines (Nelson, 2002; Frenken and Boschma, 2007) of CDFI lending practice. When a CDFI lends capital obtained from policy funders, such as RGF, the repaid loan capital is recycled into the CDFI's own loan fund. Effectively there is a transfer of ownership from successfully lent policy funds with repaid capital being transferred to the CDFI's own balance sheet allowing them to re-lend that money without constraints. Lending large loans on a short-term basis to firms that are viable is sometimes an idiosyncratic routine of CDFIs.

Third, the case studies highlight the wider nature of impacts and illustrate that impacts are broader than the tier one conventional measures reported by CDFIs. This raises the issues of tangibility and intangibility. Along with the more tangible direct impacts that are easy to measure, CDFI loans produce indirect intangible impacts which are indirect and harder to measure. This raises an important question: are the tangible direct impacts that are easy to identify measure more or less important than the intangible indirect measures? Fourth, some of the impacts identified from the case studies have a wider reach both within and beyond the place that the company is located. This wider reach extends not only to the suppliers and clients of borrowers but also to the wider family members of borrowers, the employees within the business and to individuals that are associated with each of those groups. Fifth, the case studies raise questions relating to timing, the importance of the timing of the loan for the borrowers and the timing relating to when impact measurement occurs. For CDFIs there is a timing element in relation to them lending out funds provided

from funders. Until a loan is made, CDFI funds do not produce impacts. Next, there was a critical element to the timing of the loans to Phoenix, Charged and the Church. The loan to Charged illustrates how CDFI impact measurement stops after the successful repayment of the loan, yet impacts that can be attributed to the loan continue. Additionally, although none of the case studies were start-up enterprises, another timing impact would relate to start-ups. Finally, three types of adaptation can be identified from the case studies, adaptation within the CDFIs, the borrowers and individuals that are linked to borrowers.

5.7 Conclusions

This chapter has explored the complex nature of impacts and identified that different borrower enterprises produce wider additional impacts. It reinforced that there are idiosyncratic routines in the CDFI lending process. The case studies highlighted that borrowers are adaptable individuals that take risks for gain as part of their operational strategy and that often there is a critical timing element to the CDFI loan. The CDFI loans to these borrowers highlighted the iterative and integrated nature of impacts, as well as the wider nature and complexity of impacts.

Drawing together the cases, one issue relates to the borrowers and the position that they place themselves in through risk-taking. Considering the size and scale of the three case study enterprises and the risks that they were taking illustrates that they are 'too marginal' for the mainstream banks. The case studies highlight the iterative and integrated nature of impacts. If one of the impacts from a loan

event is isolated, it fails to fully demonstrate all of the wider additional direct and indirect related impacts that might have flowed from the loan event. To develop an understanding of the impact of a loan event is to develop an integrated understanding of the wider related direct and indirect, tangible and intangible impacts. The case studies raise a number of questions relating to wider impacts and lending process. Should CDFIs focus on understanding the direct impacts, as developing an understanding of everything else is too complex? Another issue relates to when CDFIs should be interested in impacts. Should it be when they are making the loan or after they have made the loan? Arguably, CDFIs should be interested in impact when they are making the loan because some of the impacts may themselves impact on the loan performance. What is the role of measuring impact? Does the loan making routine constrain the ability of a CDFI to maximise impact on the local economy? If lending process is based on creating and saving jobs and business, does foregrounding those impacts mean that other loans that may have less tangible impacts are declined?

The way in which CDFIs operate and their lending practice directly influences impact generation. Whilst different types of firms produce different impacts they also produce impacts which are similar. It is difficult to identify loans to enterprises that do not have at least some of tier one conventional impacts. This is due to CDFIs being driven by the funder KPIs and the CDFI lending practices reflecting the policy impact KPIs. To build on these themes and start to address some of the questions raised from the case studies, in the next chapter statistical analysis is used to explore the relationships between the three tiers of impact that arise from CDFI lending.

6 ALTERNATIVE IMPACTS: IDENTIFYING THE STATISTICALLY SIGNIFICANT IMPACT MEASURES FROM THE THREE TIERS

6.1 Introduction

Chapter Four illustrates that the impact KPIs set by policy funders has focussed the attention of CDFI impact measurement onto a narrow sphere. Chapter Five identified that different types of enterprises produce wider impacts alongside the policy driven conventional impacts. This reinforces the idea that CDFIs are under reporting their impact on local communities. The previous empirical chapters have been based on exploring the impact environment that CDFIs operate within and have expanded the potential scope of impacts through the presentation of the conceptual framework measures into three tiers of impact. They have highlighted that measuring impacts is complex. In this chapter, a statistical analysis of the three tiers of impact was undertaken to identify which impacts are most significant.

Section 6.2 begins with a contextual discussion on stakeholders and embeddedness. It identifies that there are three main stakeholders that have a vested interest in impacts. These are the CDFIs, the Government and third sector funders and the borrowers. Following this there is discussion on embedded stakeholders.

Section 6.3 starts with a discussion about sector and categorises the borrower sample into two main groups of service and manufacturing. This acts as a

starting point for exploring the borrower enterprises. Section 6.4 presents a series of intercorrelations and discussions that develop the overall narrative of the data, and to identify the relationships between impacts. Section 6.5 outlines that different enterprises experience different levels of financial exclusion and inclusion. This is defined as degrees of marginality. Marginality refers to constraints which need to be removed to recognise capabilities and transform them into performance (Sen, 1999; Gatzweiler *et al.* 2011). This leads the thesis into the final empirical chapter, which explores CDFI lending practice and impacts. Section 6.6 concludes by highlighting that there are a handful of additional impacts from different types of borrowers that might be worth collecting. In the next section embeddedness and stakeholders are explored.

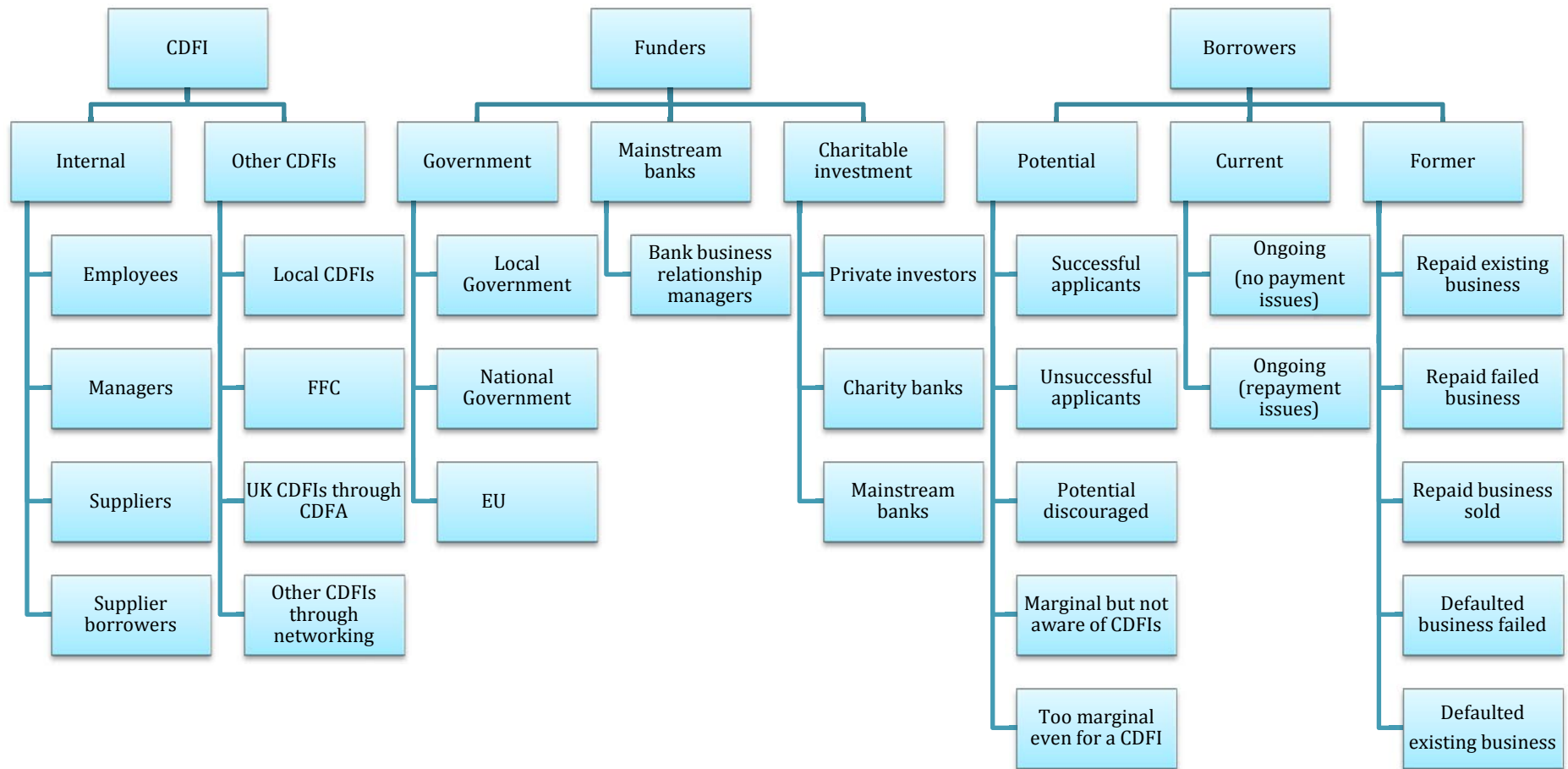
6.2 Stakeholders and Embeddedness

There are many different definitions of the term stakeholder, dating back to an internal memo by the Stanford Research Institute in 1963, which defined stakeholders as ‘groups without whose support the organisation would cease to exist’ (Friedman and Miles, 2006:4). A slightly more modern definition is ‘any group or individual who can affect or is affected by the achievement of the organisations objectives’ (Freeman, 1984:46). Stakeholders are individuals, groups or organisations that have an interest in an enterprise.

One way to categorise stakeholders is to consider individuals, groups or organisations that have a distinguishable relationship with the enterprise. Such groups can include shareholders, customers, suppliers, distributors, employees

and local communities (Friedman and Miles, 2006:13). When considering CDFIs and impacts, there are three main stakeholder groups to be explored, CDFIs, funders and borrowers. CDFIs can be considered a stakeholder as the actions that they undertake in accessing funding and through lending can have consequences for their own survival. They also create jobs as enterprises in their own right. They have relationships with other local CDFIs that involve exchanging ideas, mentoring and advice. Through the CDFA relationships can extend to other CDFIs across the UK. Funders can be categorised into three main groups, Government, charitable investors and the mainstream banks. The banks provide leverage funding to the CDFIs, business banking services connected to their day-to-day running and charitable support through funding CDFA initiatives such as Change Matters which was funded by Royal Bank of Scotland (RBS). Categorising the borrowers is slightly more problematic as borrowers can be categorised into three subgroups of potential, current and former borrowers and each of these have their own subcategories. The literature review, CDFI CEO meetings, loan files, analysis of impacts and case studies enable some of the CDFI stakeholder relationships to be mapped (Figure 6.1).

Figure 6.1 CDFI Stakeholder Relationships



There are tensions between the stakeholder relationships and impacts. Friedman and Miles (2002) explored the extent of stakeholder relationships, using Archer's (1995) model. This is a tool that can be used to outline sets of ideas and structures of material interest. Relationships can be categorised as 'compatible' or 'incompatible' and 'necessary' or 'congruent' (Figure 6.2). The Archer model provides a way of exploring the different motivations for the relationships between stakeholders and CDFIs.

Figure 6.2 Institutional Configurations and CDFI Stakeholder Relationships

	Connections	
	Necessary	Contingent
Compatible	<u>[A] Protectionist</u>	<u>[B] Opportunism</u>
	CDFI (internal)	Charitable investors Other CDFIs
Incompatible	<u>[D] Concessionary</u>	<u>[C] Competition</u>
	Government	Competitors
	Mainstream banks	Other CDFIs
	Borrowers Suppliers	

Adapted from: (Friedman and Miles, 2002:5)

In 'necessary compatible' [A] all stakeholders have something to lose if the relationship is disrupted. For CDFIs this relates to the internal CDFI environment and the relationships between managers and employees. As the social missions of other CDFIs and charitable funders are aligned they are contingent compatible [B]. This relates to institutional arrangements where 'those who adhere to one view or derive material interest from one institution are free to approach or avoid people associated with other institutions or ideas' (Friedman and Miles, 2002:6). 'Contingent incompatible' [C] relations are those where one set of ideas is not compatible with another set of ideas, resulting in competition. For CDFIs the obvious competitors are other alternative funders and predatory lenders that target those on the margins of financial inclusion. Yet there are increasing tensions between CDFIs that operate in close proximity to each another. 'Necessary incompatible' [D] relations occur when 'the interests embedded in social structures are aligned, but the operational activities will lead to the relationship being threatened' (Friedman and Miles, 2002:6). Relationships between CDFIs and Government funders are reliant of CDFIs delivering KPIs and are concessionary in nature, as CDFIs compromise their missions to access these necessary sources of funding.

The relationships between CDFIs and mainstream banks, suppliers and borrowers are also 'necessary incompatible' [D]. Focussing on the borrowers and impacts, by illustrating the current impacts that CDFIs generate from their lending activities, prospective borrowers are forewarned of the types of impacts that they would need to generate to obtain finance from a CDFI. This can have the effect of leading to gameplay by applicants, who possibly create and amend

business plans that indicate the impacts desired by CDFIs. This reinforces the KPI driven feedback cycles, outlined in Chapter Four, and makes the identification of other impacts difficult. It may result in distortion with the conventional impacts being inflated. In reality then, CDFIs are following the funding which produces fewer desired impacts. This is because, at the moment, the CDFIs are measuring impacts in response to political needs and are following Whitehall. CDFIs will do this because they have to, but some will also measure additional wider impacts that link to the current macroeconomic environment and the stakeholders that they engage with.

CDFIs should measure for different stakeholders for four main reasons. First, the ability to measure a broad range of impacts enhances the security of a CDFI, by ensuring that they are able to demonstrate that they are the best possible provider for initiatives that might be set up in future. Second, the ability to cut their data sets to demonstrate different types of impact would allow CDFIs to target alternative funders and funding schemes by demonstrating impacts that are specifically desirable to those funders. An example of this in practice is CWRT obtaining funding in 2013 from the Government SLF. Third, measuring for different communities will ensure that CDFIs stay in touch with current and upcoming political debates that may become relevant. Fourth, the impact KPIs are a useful way to inform the CDFI management of the operational performance of the business.

Alongside the impact KPIs, within a CDFI there are other KPIs that relate to employee performance and the management of the business. Employee

performance is linked to the salaries and bonuses of loan officers and support staff. These may be unique or individual to the organisation and highlight one type of variation between CDFIs. Another possible variation will be in the management KPIs that relate to the operational goals of the CDFI. For policy based CDFIs there will be less variation and for less policy based CDFIs there will be more variation in the management KPIs.

The stakeholder relationships between CDFIs, funders and borrowers is concerned with CDFIs securing finance, developing a client base in which to spend the funds that they are able to access and enhancing the recognition of their activities, through having a voice at different levels of society. By measuring for different stakeholders CDFIs could enhance the flexibility of their business models, allowing them to target new sources of funding that may emerge in the future. Differentiating themselves from the mainstream banks and other alternative and additional lenders, some of which do not operate with the same social values as CDFIs, will enable them to appeal to new borrowers.

Embedded stakeholders

The literatures on institutional embeddedness (Granovetter, 1985; Halinen and Tornroos; 1998; Taylor and Asheim, 2001; Hess, 2004, Lee, 2006; Amin and Thrift, 2007) highlight that, up until a point, SMEs that are embedded in the local community are more successful than less embedded enterprises. This is true of CDFIs (Derban *et al.* 2005). Yet, the level of institutional embeddedness can become problematic (DiMaggio and Powell, 1983; Tuttle and Dillard, 2007). If enterprises or CDFIs rely too heavily on localised isomorphic learning they run

the risk of becoming too focused on their immediate networks and miss disruptive innovations that may appear and challenge their established path-dependent routine processes (Sydow *et al.* 2005; Martin and Sunley, 2006).

The CEO scoping meeting highlighted that CEOs and loan officers actively engage in networking activities. As CDFIs are embedded in local business networks, this enables them to reach different audiences and prospective borrowers. Similarly, CDFIs participate in their own networking activity. In the West Midlands this is undertaken through the FFC and through the personal business relationships between CEOs. Nationally, CDFIs have access to one another through membership to the CDFA. Membership to these groups and the links that CEOs build between each other, results in information and advice being exchanged. When a CDFI identifies and successfully accesses a new source of funding, other CDFIs will, where possible, also attempt to access that source of finance if it is appropriate for them and aligns with their own mission objectives.

Considering the impact of borrowers on CDFIs led to an exploration of how embedded the borrowers are within the wider social environment. To explore notions of embeddedness, borrowers were asked about the nature and extent of their involvement with the local community. This included collecting information about their commute, suppliers, customers, involvement in networks and referrals. These are explored in the statistical analysis in this Chapter. Having identified that there are three main stakeholder groups with an interest in CDFI impacts and that these stakeholders are embedded in local networks the next section starts to explore the characteristics of the research sample.

6.3 Characteristics of the CDFI Borrowers

The CDFA reports the loans made by its members by different categories of borrowers and by different sectors as part of its impact reporting. This includes the number of loans made to different sized enterprises (although this stopped in 2013/2014), loans to female-led enterprises and loans to ethnic groups. Detail about the different sectors that CDFIs lend to, have not until recent years been published and whilst included in the 2013/2014 reports, remain limited in scope. Accordingly, the literatures relating to sector are explored and the descriptive statistics are outlined. This illustrates which groups of borrowers are present and which are missing from the sample population. Initially as a comparison with the CDFA national figures, the descriptive statistics are shown for CDFI lending to different sized SMEs (Table 6.1).

These highlight that within the sample, there is a higher percentage of respondents from Micro and SME enterprises compared to the overall level of lending between the three categories of enterprise size. This reflects the difficulty in gaining access to sole traders, who have less time available to participate in academic research and also that different CDFIs target different groups. For example ART, BCRS and Impetus are not actively targeting start-up borrowers, whereas CWRT does, through its involvement with the SLF.

Table 6.1 Characteristics of the Sample by Enterprise Size, Employees, and Turnover and CDFA Reporting

Enterprise size	Sum	Sample	Employees total	Employees mean	Turnover total	Turnover mean	CDFA 2011 No. Loans / %	CDFA 2012a No. Loans / %
Sole-trader	4	7.5%	4	1	£195,000	£48,750	700 / 46%	1669 / 64%
Micro	27	51%	114	4	£4,467,000	£165,444	540 / 36%	652 / 25%
SME	22	41.5%	456	20	£19,158,204	£870,827	260 / 18%	287 / 11%
Total	53	100%	574	11	£23,820,204	£449,437	1500 / 100%	2608 / 100%

Note. n=53, failed firms / defaulted borrowers excluded; Turnover was unknown for 1 sole trader, 8 micro enterprises and 1 SME. Adjusted means were £65,000, £235,105 and £912,295 respectively. There is no detailed breakdown of lending to enterprise size in the CDFA 2013 and 2014 annual reports, but the trend of increased lending to sole and micro traders is noted.

6.3.1 Sectors of CDFI Borrower Enterprises

The CDFI (2011, 2012, 2013, 2014) *Inside Community Finance* reports illustrate how SMEs can be categorised by their size, which includes employee head-count, assets, and financial turnover. The UK Government often considers SMEs, to be crucial engines of growth and key creators of jobs (BIS, 2013).

The current Standard Industrial Classification (SIC) system follows the same principles, defining businesses by their function or their products (Tully & Berkeley, 2004: 38). Whilst this system has been criticised for not taking account of increasingly vague distinctions between goods and service production (Marshall & Wood, 1995), it remains a useful method of grouping SMEs into simple categorical groups. This simplistic method of categorising SMEs has been used to explore the characteristics of the CDFI borrowers, by categorising them into manufacturing and service enterprises.

Within a population many different types of enterprises exist. When exploring enterprises within different geographic milieus there are often expectations of the types of firms that might be found. The majority of CDFI lending is distributed to enterprises operating in the service and manufacturing industries. In the UK Government statistical release for the House of Commons, Rhodes (2014) outlines that service industries accounted for 72% of businesses, 78% employment and 68% turnover, whilst manufacturing accounted for six per cent of businesses, 11% employment and 17% turnover. The service and retail sectors dominate the UK economy accounting for 78% GDP (BIS 2010b). The BIS

(2010b) economic analysis of manufacturing in the UK notes that in 2009, manufacturing accounted for £140bn in gross value added, representing 11% of GDP and employing 2.6 million people; eight per cent of the population. Manufacturing accounts for half of the total UK exports and the West Midlands has the second highest number of employees working within the manufacturing sector.

Accordingly, within the sample 37 (62%) of the loans were to service enterprises and 23 (38%) were to manufacturing businesses. Whilst this does not conform to the national figures the high number of manufacturing businesses within the sample are not surprising. Firstly, the West Midlands region has historically been associated with precious and non-precious metalwork, the automotive, aerospace and engineering industries, fine china, chocolate and many more. Birmingham was once considered the 'workshop of the world' (Bryson *et al.* 1996; Economist, 2012) due to its history as a major manufacturing centre during the industrial revolution. Secondly, the way CDFIs are funded often restricts them from lending to some sectors, such as retail (ERDF and RGF). CDFIs will attempt to address this by balancing their loan portfolios through lending to a diverse range of borrower enterprises.

To support their activities the service enterprises primarily purchase office supplies, professional services and local produce. In contrast, the manufacturing firms predominantly purchase raw materials, component parts and support services. Similarly to the service businesses, manufacturing firms also have to

purchase the office supplies and professional services necessary to ensure the continued operation of their businesses.

The participant sample has been grouped into service and manufacturing which highlights some of the differences between the two categories of borrower enterprises (Table 6.2). This illustrates that manufacturing firms within the sample are usually established businesses when they obtain a CDFI loan and are less likely to be start-ups. The high cost associated with setting up a new manufacturing enterprise puts many manufacturing start-up business outside the scope of CDFI lending. Manufacturing firms have higher turnovers and require larger levels of capital to operate. Considering impacts, they employ more staff than service firms and CDFI loans to them save more jobs, which reflects that manufacturing firms can be labour intensive. There is a higher default rate in the service firms. This perhaps reflects that the loan officers are more selective during the underwriting process when providing loans to manufacturers.

**Table 6.2 Descriptive Statistics for the Service and Manufacturing Sectors
and Impacts: Measures of Business Performance (n=60)**

Variable	Service	Manufacturing	Sum	% of sample
Enterprises	37	23	60	100%
Total employees	220	281	501	100%
Jobs created	75	82	157	100%
Jobs saved	62	180	242	100%
Business created	15	2	17	28%
Business saved	18	8	26	43%
Turnover	£7.9M	£20.5M	£28.4M	100%
Total lending	£854,036	£696,150	£1.5M	100%
Ongoing loans	19	19	38	63%
Repaid loans	12	3	15	25%
Defaulted loans	6	1	7	12%
Female	12	6	18	30%
Male	25	17	42	70%
BAME	5	3	8	13%
White Caucasian	32	20	52	87%
Married	25	19	44	73%
Physical product	7	21	28	47%
Exporting	3	10	13	22%
Major clients	12	15	27	45%
Product innovation	11	16	27	45%
Working capital loan	30	13	43	72%
Loan for R&D	7	10	17	28%
Green product	4	8	12	20%
Secured against asset	4	2	6	10%
Guarantee	7	5	12	20%
Referred CDFI	26	15	41	68%

Within the two sectors, the borrower enterprises provide a diverse range of goods and services to the public, other businesses and local authorities. The target markets for both sectors does display some similarities in particular to supermarkets, retailers and the construction industry. The most common types of customers included the general public and business-to-business products.

Alongside the nationally ubiquitous industries such as retail and construction that are present and contained within the sample, two of the four main industries for which the West Midlands region is well known are present within the sample. These are metalworking and automotive/aerospace industries. Within this sample there was a heavy focus on manufacturers purchasing and working with metals, with six manufacturing enterprises (10%) stating that metal was their biggest expense. The automotive/aerospace industries were supported by four enterprises (seven per cent of the sample).

6.4 Statistical Analysis of the Three Tiers of Impacts

To understand which of the impacts identified in the conceptual framework are significantly important, intercorrelations were undertaken between the testable impacts from the three tiers of impacts. For the statistical analysis, the failed loans were removed from the data, due to the small participation rate of defaulted borrowers. This resulted in an n size of 53 for the borrower correlations.

This section is organised as follows. The first correlation table starts with the tier one impacts and measures of business performance from the borrowers perspective (Table 6.3). Following this, the correlations from the tier two impacts from the borrowers' perspective are shown and discussed (Table 6.4). Finally, the significant correlations from across all three tiers are illustrated and discussed in turn first from a borrowers' perspective and second from the loan officers' perspective (Table 6.5 and Table 6.6). The intercorrelations relate to the four West Midland CDFIs, and aim to answer the following main question: are there significant correlations between impact variables from the three tiers of impact, that can be identified from the borrower group?

Table 6.3 Intercorrelation Tier One Impacts and Measures of Business Performance: Borrower Perspectives (n=53)

Tier		Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10
T1	1. Jobs created	2.87	5.11	-									
	2. Jobs saved	4.26	9.23	.16	-								
	3. Business created	0.26	0.44	.32*	-.38**	-							
	4. Business saved	0.49	0.5	.30*	.09	.36**	-						
	5. Funds leveraged	0.53	0.5	.22	-.16	.05	-.06	-					
	6. Turnover	£506,042	£845,337	.08	.63**	-.57**	-.14	-.20	-				
BP	7. Loan amount	£26,400	£15,937	.14	.26	-.33*	-.11	-.05	.44**	-			
	8. Loan duration (Months)	41.09	18.93	-.21	.00	.08	.28*	-.12	-.01	.14	-		
	9. Monthly payment	£3,406	£10,188	.17	.19	-.34*	-.18	.06	.40**	.83**	-.30*	-	
	10. Loan performance	0.72	0.45	-.17	.02	.09	-.01	-.26	.04	-.04	.41**	-.27	-

Note. Coded as no/yes (0/1); Jobs created, jobs saved, turnover, loan amount, duration and monthly payment = scale; Business saved (n=51), 2 borrowers unsure; BP = Measures of Business Performance; * p < 0.05. ** p < 0.01.

The intercorrelations of the tier one impacts and measures of business performance from the borrowers' perspective (Table 6.3) indicate that there are a number of relationships between some of the variables. There are significant correlations between the number of jobs created and businesses created (.32*) and between jobs created and businesses saved (.30*). There is a negative correlation between business created and jobs saved (-.38**). There is a significant correlation between business created and business saved (.36**).

There are no significant correlations between funds leveraged and the tier one impacts or measures of business performance. The ability of borrowers to leverage in mainstream, additional or alternative finance has no direct impact on the conventional policy driven measures of impact. Borrower turnover is positively related to existing businesses that are saving jobs (.63**) and is negatively related to business creation (-.57**). CDFIs issue smaller loans to start-ups (-.33*) and larger loans to existing firms with high turnovers (.44**). Loan durations are not correlated with the borrower impacts but do illustrate that the larger the loan the higher the monthly payment (.83**). Yet, the negative correlation between loan duration and monthly payment (-.30*) illustrates that there are short loans made with high repayments, thus bridging loans are heavily represented within the sample. This is because at times a CDFI will issue a low risk loan and due to the fast repayment are able to recycle the repaid capital for onward re-lending. There is a correlation between loan duration and loan performance (.41**). There is a negative correlation between monthly payment and business created (-.34*), highlighting that loans to new businesses tend to be smaller. Lastly there is a correlation between monthly payment and turnover (.40**).

The initial intercorrelations between the tier one impacts and measures of loan performance identifies that existing businesses with high turnover are significantly correlated with saving jobs. Borrowers that are starting new firms consider that they would not have been able to start their business without the support of the CDFI. A cross-tabulation of business created and business saved, showed that of the 14 businesses created, 11 borrowers considered that the loan had saved their business. Of the 37 existing businesses, 14 borrowers considered that the loan had saved their business.

Having examined the tier one correlations, the borrower perspectives of the tier two impacts are next correlated against tier one impacts and measures of business performance (Table 6.4).

Table 6.4 Intercorrelation of the Significant Tier One & Tier Two Impacts and Measures of Business Performance (n=53)

Tier	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14
T1	1. Jobs created	2.87	5.11	-												
	2. Jobs saved	4.26	9.23	.16	-											
	3. Business created	0.26	0.44	.32*	-.38**	-										
	4. Business saved	0.49	0.5	.30*	.09	.36**	-									
	5. Turnover	£506,042	£845,337	.08	.63**	-.57**	-.14	-								
	6. Loan amount	£26,400	£15,937	.14	.26	-.33*	-.11	.44**	-							
BP	7. Monthly payment	£3,407	£10,189	.17	.19	-.34*	-.18	.40**	.83**	-						
	8. Loan Performance	0.72	0.45	-.17	.02	.09	-.01	.04	-.04	-.27	-					
	9. Growth achieved	0.34	0.47	.18	.25	-.25	-.28*	.51**	.48**	.47**	.01	-				
	10. Gender	0.28	0.45	.06	.05	.19	.31*	-.08	-.04	-.09	.12	-.10	-			
T2	11. Age	50	12	-.03	.12	-.35*	-.19	.28*	.15	.20	-.11	.18	-.01	-		
	12. Pro-social	0.36	0.48	-.37**	-.36**	.18	-.23	-.30*	-.26	-.08	-.05	-.29*	-.12	-.30*	-	
	13. Manufacturing	0.42	0.49	.01	.36**	-.42**	-.02	.38**	.20	.10	.27*	.20	-.02	.27	-.15	-
	14. Security	0.11	0.32	.02	.17	.06	.01	.26	.17	.08	.09	.12	.04	-.07	-.02	-.06

Note. Coded as no/yes (0/1); Jobs created, jobs saved, turnover, loan amount, monthly payment and age = scale; Business saved (n=51) 2 borrowers unsure; Age (n=52) 1 borrower age not in CDFI file; BP = Measures of Business Performance; * p < 0.05. ** p < 0.01.

The correlations between the tier one and two impacts and measures of business performance show a number of relationships. Many are not surprising, such as growth being related to turnover (.51**) loan amount (.48**) and monthly payment (.47**) whilst being negatively correlated to businesses that are saved (-.28*). An inverse correlation (-.35*) shows that age is correlated to existing businesses and turnover (.28*). Thus, older borrowers are more likely to be running established enterprises. Female borrowers are more likely to consider that the CDFI loan saved their business (.31*). The correlations highlight that many of the tier two measures that are currently collected by CDFIs and which are partially reported, are problematic, as they are not related to other impacts.

Chell (2007:13) identifies that many entrepreneurs 'consider themselves to have mixed motives, including those of attempting to 'make a difference' as they might phrase their 'pro-social' motivation.' To explore the variety of enterprises that operate with social motives, borrowers were asked about the social impacts that they thought came from their CDFI loan. Responses were categorised into four main themes, jobs, survival, the environmental impact of their product and the impact of their enterprises activity on the local community. Of the 53 borrowers, 28 mentioned jobs as the main social impact of the loan and six identified business survival as the main social impact. Seven borrowers considered the social impact of their activities on local communities and 12 mentioned the environmental impacts of their product. To explore the enterprises that had mentioned the social impacts of their activities and products a 'pro-social' variable was created. The pro-social enterprises in the data were consisted of the three CSO organisations, one of which was explored in Chapter Five, and 16

other enterprises that operate to produce products and services with a social or environmental impact. The enterprises within this section are diverse and include manufacturing firms that produce eco-friendly products and service organisations that increase the social wellbeing of individuals. Examples include, a manufacturing firm that makes biodegradable food packaging, another that was engaged in carbon capture and storage, and service firms working in foster care or offering an advice and support service for foreign immigrants. The pro-social enterprises are not positively correlated to any measures and are negatively correlated to jobs created (-.37**), jobs saved (-.36**), turnover (-.30*), growth (-.29*) and age (-.30*). The negative correlations of the pro-social borrowers highlights that, this group of younger borrowers, considered the social impacts of the loan as the most important, as they had produced few of the politically desirable impacts.

Considering, some of the wider additional relationships between the tier one and tier two impacts, business created is also negatively correlated to manufacturing (-.42**) and turnover is positively correlated to manufacturing (.38**). There are significant correlations between manufacturing and jobs saved (.36**) and loan performance (.27*). There are no significant correlations between manufacturing firms and the tier two impacts. The initial correlations highlight that there is a clear distinction between different sectors and different types of enterprises. Pro-social enterprises are very dissimilar from manufacturing businesses even though some of them are manufacturing themselves. Manufacturing and service businesses are also very unlike. The tier two impacts show that much of the

data collected by CDFIs has little meaningful value in terms of measuring wider impacts.

6.4.1 Borrower Perceptions of the Three Tiers of Impacts

The next section explores the wider additional impacts of CDFI lending. It achieves this by undertaking intercorrelations between the three tiers of impact (Table 6.5). The subsequent sections explore the two borrower sectors of manufacturing and service enterprises, followed by an analysis of the enterprises categorised as pro-social. Following this the relationship between the tier one impacts and wider impacts are explored.

Table 6.5 Intercorrelation of the Three Tiers of Impact: Borrower Perspectives (n=53)

Tier	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	
T1	1. Jobs created	2.87	5.11	-																																	
	2. Jobs saved	4.26	9.23	.16	-																																
	3. Business created	0.26	0.44	.32*	-.38**	-																															
	4. Business saved	0.49	0.5	.30*	.09	.36**	-																														
	5. Turnover	£506,042	£845,337	.08	.63**	-.57**	-.14	-																													
BP	6. Loan amount	£26,400	£15,937	.14	.26	-.33*	-.11	.44**	-																												
	7. Monthly payment	£3,407	£10,189	.17	.19	-.34*	-.18	.40**	.83**	-																											
	8. Loan performance	0.72	0.45	-.17	.02	.09	-.01	.04	-.04	-.27	-																										
T2	9. Growth achieved	0.34	0.47	.18	.25	-.25	-.28*	.51**	.48**	.47**	.01	-																									
	10. Age	50	12	-.03	.12	-.35*	-.19	.28*	.15	.20	-.11	.18	-																								
	11. Pro-social	0.36	0.48	-.37**	-.36**	.18	-.23	-.30*	-.26	-.08	-.05	-.29*	-.30*	-																							
	12. Manufacturing	0.42	0.49	.01	.36**	-.42**	-.02	.38**	.20	.10	.27*	.20	.27	-.15	-																						
	13. Exporting	0.25	0.43	.19	.29*	-.34*	-.03	.44**	.15	.10	-.03	.15	.06	-.15	.41**	-																					
T3	14. Major clients	0.47	0.5	.10	.37**	-.31*	-.10	.51**	.33*	.30*	-.16	.36**	.14	-.16	.28*	.34*	-																				
	15. R&D	0.3	0.46	.04	.06	-.30*	.01	.06	.35**	.40**	-.13	.22	.27	-.15	.28*	.39**	-.05	-																			
	16. Business sold	0.06	0.23	.33*	.13	.04	.26	.04	.06	.06	-.39**	.00	.06	-.18	-.04	.24	-.07	.20	-																		
	17. Strategy changes	0.34	0.48	.09	.28*	-.25	.01	.55**	.26	.11	.01	.33*	.14	-.20	.20	.33*	.36**	.14	.17	-																	
	18. Bankability	0.34	0.47	.22	-.06	-.03	-.28*	.16	.20	.19	-.16	.09	.18	.02	-.11	-.08	.12	-.05	-.27	.03	-																
	19. Family unpaid	0.31	0.47	-.35*	-.35*	-.03	-.04	-.30*	-.10	-.12	.15	-.20	-.07	.30*	.22	-.10	-.37**	.10	-.17	.22	.19	-															
	20. Stress reduced	0.45	0.50	.38**	.25	.06	-.02	.08	.03	.08	-.27	.07	-.01	-.13	-.23	.19	.13	-.02	.11	-.01	.23	-.45**	-														
	21. Entrepreneurialism	7.29	1.81	.35	-.20	.42*	.09	-.43*	-.25	.08	-.27	.09	.18	.09	-.37*	-.23	-.18	.18	-.14	-.35	.12	-.22	.02	-													
	22. Long commute	0.3	0.46	-.06	-.05	-.11	-.07	.15	.07	-.03	.23	.05	.10	-.15	.11	.29*	.04	.02	-.16	.22	.15	.10	-.19	-.14	-												
	23. City location	0.4	0.49	-.16	.25	-.14	-.10	.21	.13	-.08	.08	-.01	-.01	-.12	.02	.08	.32*	-.20	-.03	.23	.13	-.12	-.04	-.40*	.06	-											
	24. Small town	0.21	0.41	.29*	-.25	.12	-.04	-.22	.08	.16	-.09	.22	.14	-.09	.04	-.18	.08	.27*	-.13	-.07	.07	.06	.00	.38*	-.13	-.42**	-										
25. Regional suppliers	0.43	0.50	.11	-.14	.34*	.10	-.20	-.17	-.15	-.13	-.23	.27	-.02	-.35**	-.32*	-.07	-.16	-.05	-.15	.31*	-.01	-.03	.02	-.08	-.01	.12	-										
26. Globally suppliers	0.3	0.46	.12	.03	-.21	-.20	.14	.25	.28*	-.04	.31*	-.12	.02	.11	.20	.12	.02	.02	.22	-.20	.01	-.02	.08	.02	-.03	.07	-.58**	-									
27. Innovation	0.43	0.50	-.01	.02	-.35**	-.22	.16	.12	.13	.04	.26	.39**	-.18	.42**	.21	.16	.25	-.05	.34*	.02	-.01	-.11	-.30	.17	-.01	.21	-.23	.34*	-								
28. Basic training	0.75	0.43	.49**	.22	-.06	.08	.40**	.51**	.38**	-.07	.32*	.10	-.49**	.04	.22	.28*	.09	.14	.32*	.24	-.29*	.17	-.10	.18	.19	-.03	-.03	.09	-.03	-							
29. Vocational training	0.42	0.50	.31*	.16	-.07	.10	.18	.43**	.33*	-.32*	.20	.11	-.31*	-.09	.23	.20	.28*	.29*	.37**	.19	-.07	.23	-.07	.11	.10	.14	.04	-.05	.11	.39**	-						
30. Apprenticeships	0.13	0.34	.09	.09	-.11	.07	.13	.33*	.37**	-.13	.19	.05	-.18	.12	.04	-.15	.11	.15	-.04	.06	.10	.09	-.24	-.01	-.09	.08	-.12	-.01	.11	.22	.12	-					
31. Work experience	0.17	0.38	.13	-.08	-.16	-.15	.25	.30*	.22	-.05	.21	.03	-.13	.23	.21	.38**	.03	-.11	.31*	.19	-.20	-.01	-.20	.36**	-.06	.14	-.09	.14	.31*	.14	.13	-.03	-				
32. Networks	0.45	0.53	-.09	.21	-.17	-.03	.15	-.16	-.10	-.15	.04	.25	-.05	-.12	.06	.15	-.21	.21	-.05	-.12	.25	.22	-.05	-.30*	.08	.00	.13	-.11	-.12	-.21	.01	-.03	-.23	-			
33. Referrals to CDFI	0.72	0.46	-.19	-.10	-.10	-.23	.08	-.23	-.21	.07	-.08	.37**	.12	-.15	-.03	-.08	-.13	-.39**	.10	.23	.07	.15	.03	.14	.08	-.09	.13	-.13	.04	-.16	-.15	-.13	-.05	.11	-		
34. Satisfaction	9.25	1.03	.10	.14	-.10	.28*	.14	.08	-.02	.09	-.20	.22	-.06	.21	.25	.04	.05	.20	.19	-.05	-.06	-.01	-.32	.16	.31*	-.24	-.04	-.08	.15	.19	.28*	.00	.01	.06	.14	-	

Note. Coded as no/yes (0/1); Jobs created, jobs saved, turnover, loan amount, monthly payment age, entrepreneurialism and satisfaction = scale; Business saved (n=51) 2 borrowers unsure; Age (n=52) 1 borrower age not in CDFI file; Entrepreneurialism (n=31) late addition to survey; Satisfaction (n=52) unable to collect for 1 borrower; BP = Measures of Business Performance; * p < 0.05. ** p < 0.01.

From the intercorrelations of all three tiers of impact the first significant findings are that impacts differ based on the enterprise sector and there is a relationship between sector and the number of impacts that are present. This differs from CDFI lending practice which does not consider sectors differentially.

Significant Impacts of the Manufacturing Enterprises

Manufacturing is negatively correlated with regional suppliers (-35**). This means that the borrower enterprises within the sample are more likely to be importing materials from outside the CDFIs geographical area. There are significant positive correlations between manufacturing and four of the tier three impacts: exporting (.41**), major clients (.28*), research and development (.28*) and innovation of products (.42**). This indicates that manufacturing firms within the sample are developing new products for sale abroad.

Borrowers were asked to consider how entrepreneurial they considered themselves to be and to score their answer on a scale of 1-10 (with 1 being at the lower end of the scale and 10 being the highest). There was a significant negative correlation between manufacturing firms and entrepreneurialism (-.37*). This highlights that these borrowers tended to rank themselves with a low score when asked this question.

The tier three impacts that are significantly correlated with manufacturing firms also have relationships with additional wider impacts. These are linked to notions of embeddedness and the relationships that these borrowers have both within the regions and further afield. Examples include major clients correlating

with work experience (.38**), exporting (.34*). Basic training correlates to jobs created (.49**), turnover (.40**), loan amount (.51**), monthly payment (.38**), growth achieved (.32*), major clients (.28*), changes in strategy (.32*) and vocational training (.39**). Similarly, vocational training correlates with jobs created (.31*), loan amount (.43**), monthly payment (.33*), R&D (.28*), business sold (.29*), changes in strategy (.37**), basic training (.39**) and satisfaction (.28*). Many of these variables also correlate with manufacturing.

There are a number of associations between existing, large manufacturing firms and the three tiers of impacts. Borrower age is significantly correlated with R&D (.29*) and Innovation (.37**). These variables share an association with manufacturing, which indicates that predominantly the manufacturing businesses are owned and run by older borrowers. Often these individuals have a long commute to work from home (.29*). Manufacturing firms are exporting, interact with major clients and invest borrowed finance into R&D, rather than to cover working capital shortfalls.

Significant Impacts of the Service Enterprises

The binary coding of the service and manufacturing firms means that there is an inverse relationship in the data between enterprises operating in these two sectors. Service enterprises have significant correlations with one tier one impact, business created (.42**), and one of the tier three impacts, regional suppliers (.35**). Service borrowers consider themselves to be more

entrepreneurial (.37*) than manufacturers. There is a relationship between regional suppliers and bankability (.31*).

Older borrowers who run service and manufacturing businesses are more likely to refer others to the CDFI (.37**). Although where a business has been successfully built up and sold there is a negative relationship with referrals to the CDFI (-.39**). Highly successful entrepreneurs, it seems, like to keep quiet about their businesses marginal beginnings.

Significant Impacts of the Pro-Social Enterprises

The pro-social businesses are negatively correlated across all three tiers of impact, with the exception of having a positive correlation to unpaid family members (.30*) working for them. The correlations reinforce the variance between the enterprises within the pro-social category. The impacts that they have within local environments are limited to the specific activities that they undertake. As such measuring their wider social impacts is limited perhaps to CDFIs undertaking individual case studies for marketing purposes.

Relationship Between the Tier One Impacts and Wider Additional Impacts

Two of the tier one conventional policy driven impacts correlate to wider impacts. First, there are significant correlations between jobs created and, stress reduction (.38**), basic training (.49**), vocational training (.31*) small town (.29*) and business sold (.33*). There is a negative correlation with family unpaid (-.35*). There is an inverse relationship between business sold and loan

performance (-.39**) which means that borrowers that have sold businesses have repaid their loans. Second, jobs saved correlates positively with exporting (.29*), major clients (.37**) and strategy changes (.28*). Jobs saved is negatively correlated to unpaid family members working for the enterprise (-.35*). Business created and business saved predominantly correlate negatively with wider impacts.

6.4.2 CDFI Loan Officers Perceptions of Impact

Developing an understanding of the significant impacts of borrowers, leads to an exploration of impact from a CDFI perspective. The loan officers from ART, CWRT and Impetus were asked to identify which impacts they considered each loan had produced. Responses were coded into SPSS using a binary scale of (no = 0 / yes = 1). For the statistical analysis, the failed loans were removed from the data, due to the small participation rate of defaulted borrowers. BCRS were unavailable to participate in the research at this stage due to other commitments. This resulted in an n size of 46 for the lender correlations (Table 6.6).

Table 6.6 Intercorrelation of Loan Officers Perception of Impacts and Measures of Business Performance (n=46)

	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
1. Jobs created	0.71	0.40	-																															
2. Jobs saved	0.51	0.47	.15	-																														
3. Business created	0.21	0.25	.30*	-.16	-																													
4. Business saved	0.25	0.25	.19	-.12	.84**	-																												
5. Turnover	£522,222	£894,306	-.09	.37*	-.24	-.33*	-																											
6. Loan amount	£27,200	£16,872	.07	.03	.05	-.04	.43**	-																										
7. Monthly payment	£3,814	£10,894	-.04	-.14	-.01	-.13	.36*	.83**	-																									
8. Loan performance	0.72	0.46	.20	.23	.23	.34*	-.03	-.08	-.31*	-																								
9. Pro-social	0.35	0.48	-.23	-.37*	.04	-.09	-.33*	-.27	-.10	.05	-																							
10. Manufacturing	0.41	0.50	-.02	.27	.10	-.04	.35*	.20	.11	.23	-.15	-																						
11. Success of enterprise	0.59	0.50	.05	.31*	-.28	-.13	.29	.02	-.01	.06	-.41**	-.01	-																					
12. Wealth creation	0.35	0.48	-.09	-.27	.04	.00	-.01	.20	.26	-.15	.14	.22	-.31*	-																				
13. Gender	0.09	0.29	-.01	-.09	.06	.31*	-.34*	-.15	-.20	.19	-.23	-.10	-.06	-.06	-																			
14. Ethnicity	0.09	0.29	.06	-.17	.21	.15	-.23	.04	-.09	.19	.26	-.10	-.21	-.06	.18	-																		
15. Wellbeing	0.02	0.15	.12	.16	-.13	-.15	.18	.08	.08	-.24	-.11	-.13	.13	-.11	-.05	-.05	-																	
16. Educational	0.04	0.21	-.34*	-.24	-.18	-.21	-.01	.30*	.23	-.10	.29*	-.18	-.04	-.16	-.07	.31*	-.03	-																
17. Entrepreneurialism	0.15	0.36	.23	.25	.01	.06	.06	-.12	-.16	.00	-.06	-.11	.11	-.06	.08	.08	.35*	-.09	-															
18. Family	0.09	0.29	-.07	-.01	-.26	-.31*	.05	-.32*	-.13	-.15	-.06	.06	.10	-.06	-.10	-.10	-.05	-.07	.08	-														
19. Credit history	0.02	0.15	.12	.16	-.13	-.15	.18	.08	.08	-.24	-.11	-.13	.13	-.11	-.05	-.05	1**	-.03	.35*	-.05	-													
20. Income	0.33	0.47	-.01	-.07	-.11	-.05	-.07	-.20	-.08	-.08	-.22	-.11	.40**	-.02	.11	-.22	.21	-.15	.22	.44**	.21	-												
21. Cash flow	0.43	0.50	.26	.46**	-.20	-.09	.39**	.10	-.06	.16	-.55**	.07	.47**	-.27	.04	-.27	.17	-.19	.24	-.12	.17	.05	-											
22. Bankability	0.11	0.32	-.01	-.01	-.01	-.07	.16	.16	.17	.06	-.11	-.01	.15	-.11	-.11	-.11	-.05	.27	.05	-.11	-.05	-.09	.26	-										
23. Funds leveraged	0.13	0.34	-.01	-.15	-.06	-.13	.22	.22	.20	.10	-.01	-.06	.19	-.15	-.12	.11	-.06	.55**	.20	.11	-.06	.01	.18	.49**	-									
24. Potential for jobs	0.65	0.48	.48**	.27	.06	.09	.24	.23	.06	.15	-.33*	.15	.31*	-.04	-.10	.06	.11	-.29*	.18	.06	.11	.22	.27	-.19	.01	-								
25. Benefit spend saved	0.15	0.36	.09	-.07	.26	.30*	.06	.05	.01	.13	-.18	.01	.36*	-.18	.08	-.13	-.06	-.09	.16	-.13	-.06	.35*	.36*	.24	.20	.18	-							
26. Regeneration of area	0.13	0.34	-.11	-.43**	.07	.13	-.10	.16	.15	.10	.12	-.19	.19	-.15	.11	.11	-.06	.55**	.02	-.12	-.06	.28	.05	.28	.43**	.01	.38*	-						
27. Untraded impacts	0.02	0.15	-.24	-.17	-.13	-.15	-.10	.24	.25	-.24	.20	-.13	-.18	-.11	-.05	-.05	-.02	.70**	-.06	-.05	-.02	-.10	-.13	.43**	.39**	-.20	-.06	.39**	-					
28. Impact on suppliers	0.13	0.34	.30*	.13	.07	.13	.11	.07	.10	.24	-.15	-.06	.33*	-.01	-.12	-.12	-.06	-.08	.02	.11	-.06	.28	.311*	.28	.23	.28	.56**	.23	-.06	-				
29. Timing of loan	0.22	0.42	-.13	.05	-.23	-.32*	.23	.20	.11	-.14	-.16	.09	.23	-.05	-.16	.02	.28	.41**	.22	.02	.28	.08	.18	.16	.27	-.17	-.08	.27	.28	-.20	-			
30. Referrals to CDFI	0.20	0.40	-.05	-.01	-.41**	-.38**	.13	.04	-.09	-.06	-.13	-.08	.30*	-.36*	.04	.04	.30*	.43**	.25	.04	.30*	.01	.34*	.18	.46**	.02	-.06	.30*	.30*	-.19	.54**	-		
31. Satisfaction	0.28	0.46	-.01	.04	-.33*	-.34*	.19	.08	-.06	-.25	-.26	-.04	.43**	-.26	-.02	-.02	.24	.34*	.27	-.02	.24	.08	.42**	.09	.33*	.05	.14	.19	.24	-.24	.79**	.61**	-	
32. CDFI marketing	0.17	0.38	-.14	.18	-.27	-.34*	.26	.08	-.05	-.09	-.09	.08	.27	-.22	-.14	.06	.33*	.47**	.29	.06	.33*	.05	.29*	.21	.33*	-.15	-.04	.16	.33*	-.18	.64**	.87**	.73**	-

Note. Coded as no/yes (0/1); jobs created, jobs saved, business created business saved, turnover, loan amount and monthly payment = scale; p < 0.05. **p < 0.01.

The loan officer correlations show that there is a significant correlation between business created and jobs created (.30*). There is also a significant correlation between business created and business saved (.84**). Turnover is significantly correlated with jobs saved (.37*) and negatively correlated with business saved (-.33*). Loan performance is correlated with business saved (.34*). The loan officers understand that existing businesses with high turnover save more jobs than smaller businesses or start-ups. This theme was reflected in some of the CDFI CEO interviews as one CEO outlines:

'You would be amazed at the types of business that come our way because the banks aren't interested. They are quite sizable up to 30-40 employees. These aren't massive businesses but they are bigger than I've had experience of working with. It is businesses with maybe £5 million turnover – and the banks are squeezing their overdraft'
(CEO3, 19.05.11).

With the exception of a relationship between manufacturing and turnover (.35*), there are no significant correlations between manufacturing enterprises and wider impacts perceived by the CDFI loan officers. Given that jobs saved is a core impact measure it is unusual that CDFI loan officers have been unable to draw the link between manufacturing firms and one of their core impact measures; jobs saved.

Considering the conventional measures of impact, loan officers perceive job creation to be significantly correlated with the potential for more new jobs to be created in the future (.48**) and impact on suppliers (.30*). There are significant

correlations between jobs saved and the success of the enterprise (.31*), and jobs saved and borrowers using the loan funds to support their cash flow (.46**). Business saved is correlated to gender (.31*). Business created is significantly correlated to business saved (.84**). This highlights that loan officers perceive there to be a strong relationship between their loans to start-up borrowers and their position as a lender of last resort.

There are significant negative correlations between pro-social enterprises and jobs saved (-.37*) turnover (-.33*), success of enterprise (-.41**), improvements in cash flow (-.55**) and the potential for job creation (-.33*). Loan officers understand that enterprises operating with pro-social missions create fewer economic impacts. Instead they perceive a relationship between these enterprises and educational impacts (.29*). For loan officers educational impacts correlate with some of the wider additional impacts such as regeneration of the local area (.55**) and with the ability of borrowers to leverage in additional finance (.55**). This highlights that some of the borrowers are using CDFI loans as a partial solution to their finance requirements.

Having explored the correlations between the tiers of impact from the borrower and lending officer perspectives, implications for the three stakeholder groups are explored next.

6.4.3 Perspectives of Impacts: Consequences for the Three Stakeholder Groups

CDFI perspectives

The analysis of impacts has consequences for the CDFIs, funders and borrowers. These are considered and possible options for each group are suggested. If CDFIs want to maximise impacts across the three tiers of impact, then they need to provide loans to manufacturing businesses. Specifically to borrowers that are investing in R&D, are exporting, to major clients and that are innovating. The analysis highlights the need for improvements in communication between CDFIs and borrowers from the manufacturing sector. Manufacturing firms provided the majority of correlations across the three tiers of impact, yet, the analysis of the loan officer perceptions of impacts highlights that CDFIs currently have a limited understanding of how manufacturing generates the impacts that they deem to be most desirable.

Organisations from the service sector generate more correlations. These borrowers are engaged with regional suppliers and are more embedded in local networks. Like manufacturing they are more innovative in investing borrowed money into R&D rather than using finance to subsidise working capital. Involvement with networks and their experience means that these borrowers are likely to have a better understanding of how finance will affect their bottom line and allows them to 'bounce' ideas off other experienced business leaders. The latest Government backed start-up loan funding scheme that CDFIs are accessing will create a number of new businesses (Young, 2012). These new firms are unlikely to generate significant wider impacts across the tiers due to

their small size and nature. CDFIs and the CDFA need to recognise this. Presently, CDFIs are reporting these firms, through the CDFA annual report, in the same way that they have been reporting impacts for a number of years. The number of new businesses created has increased from 712 in 2011 to 11,500 in the 2014 (CDFA, 2012a; 2014).

There are inherent benefits that arise as a consequence of CDFIs lending to enterprises that have pro-social impacts. These are found in the activities that they undertake which service highly specific needs within local communities and the products that they produce that have positive environmental impacts. There are tensions that exist between these types of enterprises and other sectors. As they are not comparable with manufacturing or service businesses measuring the impacts for these types of organisations in the same way is problematic. CDFIs already categorise impacts from businesses and CSOs separately, using the same methodology. This research indicates that they could categorise the impacts from different types of organisations as three groups. These could be manufacturing, service and pro-social. Demonstrating the impacts of pro-social enterprises could be undertaken in a different way, such as through producing case studies. This would provide a clear indication to funders of where and how the majority of impacts occur.

Borrower perspectives

When considering the analysis from a borrower's perspective, there are potentially positive and negative consequences. For manufacturing and larger

established service businesses the analysis is positive. Borrowers running manufacturing enterprises demonstrated the largest number of correlations between the different tiers of impact. Borrowers running service enterprises are often embedded in local networks of regional suppliers. For organisations that have pro-social products or services the analysis is potentially worrying. If CDFIs were to withdraw the level of support that they offer to these organisations, due to the high risk of lending to these organisations, and focus on the sectors which generate broader impacts, this would result in them becoming increasingly marginalised. Similarly for small, new service organisations the analysis is also worrying. Whilst there is currently a Government initiative in the form of the start-up loan fund, sources of funding can be withdrawn and individuals that wish to create new enterprises in the future might find that they are increasingly marginalised.

Funder perspectives

The lack of significant impacts from female-led and ethnically-led enterprises means that counting the number of loans to these two groups is less significant in terms of impacts generated. The only useful purpose for collecting and reporting these figures is as a measure for demonstrating the socially inclusive nature of CDFI lending. Funders need to understand this distinction between measures of social inclusion and measures of impact. Currently, Government sources of funding prevent CDFIs from lending to retail firms and to firms that are failing. Both of these are strange policies. Firstly, current policy funding restrictions on lending to failing firms contradicts one of the core tier one

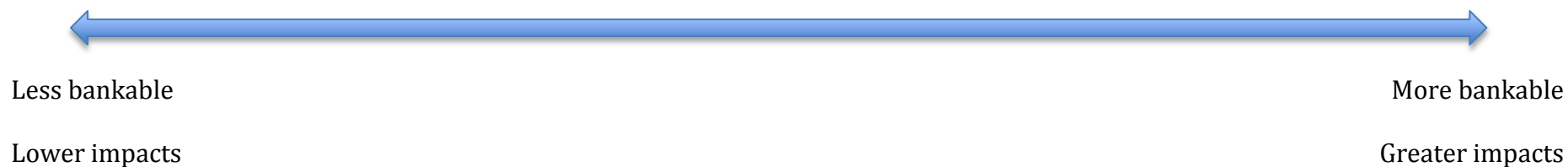
impacts of business saved. By definition a business that is saved must have been failing. Secondly, failing to provide support across all sectors of the economy could eventually result in an unbalanced economy. Unbalanced economies are more susceptible to large shocks. CDFIs currently attempt to overcome this by lending to retailing firms using funds that are recycled from successful loans, which no longer have impact KPIs. CDFIs are part of the finance gap solution. Funders need to recognise that CDFIs access sources of funding that become available and lend to the target groups that each stream is designed to help. Should a source of funding be withdrawn or change, so too will the number and nature of impacts that CDFIs generate. To help CDFIs generate wider impacts, funding could be provided by Whitehall that specifically targets missing sectors (retail) and existing broad impact sectors (manufacturing). These sources of funding could have different impact criteria, specifically designed for each sector.

6.5 Degrees of Marginality

Understanding the significant correlations between impacts of CDFI lending leads to an examination of how impacts fits into the wider concept of marginality and scope of CDFI lending. Enterprises experience different levels of financial exclusion and inclusion depending on a number of factors (Figure 6.3).

Figure 6.3 Scope of CDFI Lending: Degrees of Marginality

Unable to access mainstream finance								Able to access mainstream finance		
Ineligible not supported	Ineligible but supported*		Different types of SME eligible for CDFI loan					Ineligible for CDFI loan		
Sectors outside CDFI social values	Failing firms	Retail firms	Start-up CSOs	Start-up service & pro-social firms	Existing CSOs & pro-social firms	Existing small service firms	Existing near bankable manufacturing & service firms	Enterprises that operate in sectors outside the CDFI social values	SMEs	FTSE 100, FTSE 250 firms
No funding	Recycled funds		Start-up Loan Fund			ERDF and RGF		N/A		



Note. *ERDF restricts CDFIs from lending to retail enterprises, but loans can be made using recycled funds.

Figure (6.3) illustrates that CDFIs support a wide range of different firms and that some of these firms are closer to financial inclusion than others. The analysis has shown that the firms that demonstrated the largest number of significant correlations are those that are the least financially marginalised. Namely, the established manufacturing firms and larger established service firms. As the economy continues to recover from the global recession these firms are the most likely to become bankable. Some firms have developed strong working relationships with CDFIs and would prefer to access CDFI services over mainstream banks. Nevertheless, some borrowers would rather access mainstream funding. As more firms became bankable, CDFIs would see many of the wider significant impacts reduce. As the level of lending to these firms decreased the level of risk to the CDFI loan portfolios would increase. This would in turn lead to lower levels of sustainability within the sector. Currently, some CDFIs are engaging enthusiastically with the start up loan funding and the level of loans to start-up firms has increased significantly.

6.6 Conclusions

To explore the relationships between impacts, a statistical analysis was undertaken. There are five main points that result from the statistical analysis. First, some of the conventional impacts link to wider additional impacts, and they are useful indicators for demonstrating wider impact. Second, there are a handful of wider additional impacts that are significant when the borrower enterprises are categorised by sector. Third, the tier two impacts of gender and ethnicity that are required by some CDFI funders, such as the ERDF, are not

significantly correlated to either the conventional or wider additional impacts. Although, lending to these groups is an impact in its own right as these borrower groups often struggle to access finance. Fourth, many of the significant impacts link to notions of embeddedness. Finally, considering impacts leads to a requirement to consider the role that the CDFI lending process plays in the creation of impacts. The analysis highlighted the correlations between impacts and measures of business performance. These can be summarised into three key groups:

(1) Manufacturing firms

Loans to existing large manufacturing firms had the most correlations across the three tiers of impacts. These borrowers are embedded in networks and are likely to refer the CDFI to other potential borrowers. Yet they do not consider themselves as entrepreneurial, highlighting the stigma that seems to surround the sector. CDFIs should attempt to develop their relationships with these firms and retain this business as a means of balancing their loan portfolios. This could be achieved by building closer ties with manufacturing sector networks. The impacts that correlated significantly with manufacturing firms (Table 6.5) were:

- Jobs saved (.36**)
- Turnover (.38**)
- Exporting (.41**)
- Major clients (.28*)
- Research and development (.28*)
- Innovation (.42**)

(2) Service firms

Loans to service firms demonstrated a few significant correlations. The service firms that engage with local supplier networks are more likely to become bankable. CDFIs should lend to these businesses, as they too will help to ensure that their loan portfolio is balanced. The impacts that correlated significantly with service firms (Table 6.5) were:

- Business creation (.42**)
- Regional suppliers (.35**)

(3) That enterprises that have high levels of pro-social behaviour generate no significant impacts across the three tiers of impact. The only positive impact that they have on local communities relates to their individual missions. CDFIs need to be aware of this and not attribute too much weight to the impacts of these types of enterprises. Whilst it is important for their individual missions to lend to marginal businesses, this should not jeopardise the CDFIs own sustainability.

CDFIs are complex enterprises that have to balance their own interests with the interests of different stakeholders. This involves lending to enterprises and collecting and reporting the impacts of that lending, following the KPIs set by policy funders. CDFIs have to balance impacts with loan the viability of the loan to ensure that their own sustainability is not compromised.

Exploring the data from the three tiers of impacts has illustrated that there are a small number of wider impacts that can be identified from the loan portfolios of the West Midland CDFIs. These impacts relate to the policy arena impacts and also to measures of business performance. Coercive isomorphism relates to the political context of organisations (DiMaggio and Powell, 1983). The initial decision by a CDFI to embed themselves into the CDFI community of practice (Wenger, 2008) by obtaining Government funding is the start of a path-dependent process that results in routines being formed and standardisation in the way a CDFIs will consider impacts. The impacts collected from the four West Midland CDFIs produce similar impacts to the policy requirements as a result of the professionalisation and standardisation that occurs because they are embedded into a community of practice (Wenger, 2008) that has a political requirement to demonstrate particular set of impacts.

Chapter Seven explores the embedded isomorphic lending practices and routines of the four West Midlands CDFIs. It starts by exploring how they were formed and the nature of the lending practices that they have adopted.

7 INFORMATION EXCHANGE AND ‘EMBEDDED ISOMORPHISM’ IN CDFI LENDING PRACTICES

7.1 Introduction

The previous chapters have explored the current and additional impacts of CDFI lending, and have identified that loans to borrowers create wider additional impacts many of which are often complex in nature. This penultimate chapter explores impact, CDFIs and the lending process. The chapter is informed by the lending officer questionnaires, the borrower interviews, file research and the CDFI CEO interviews. The chapter aims to answer the question: What is the relationship between the historical development of the four CDFIs and the influences of an impact agenda on the ways in which their lending process operates?

The previous chapters have explored the impacts of the lending activities of the four West Midlands CASE partner CDFIs: ART, BCRS, CWRT and Impetus. Chapter Two explored embeddedness (Granovetter, 1985) and isomorphism (DiMaggio and Powell, 1983) and blended the two concepts to develop the notion of embedded isomorphism. Embedded isomorphism occurs: due to the context within which CDFIs operate, including pressures occurring from different stakeholders and communities of practice (Wenger, 2008) as well as from some of the routine behaviours that occur as a result of different internal and external pressures.

The subsequent sections explore the embedded isomorphic pressures that CDFIs are subjected to from their initial inception, which continues throughout their operational activities of lending to clients. By exploring the lending process of CDFIs it is possible to examine how CDFIs and their loan officers accumulate and exchange information as part of a process to reduce information asymmetries between themselves and borrowers.

Section 7.2 begins by outlining the histories of ART, BCRS, CWRT and Impetus. This identifies that whilst the CDFIs are different organisations they access similar networks, sources of funding and have learnt from each other through embedded isomorphic and path-dependent processes and pressures. Section 7.3 expands on this by exploring the operational practices of CDFIs through an examination of relationship lending and the CDFI lending process. The loan officer characteristics and their main concerns when underwriting loans are outlined. Section 7.4 explores four different types of loans to four different borrower enterprises. The case studies focus on the application process and impacts that result from loans made to a 'repeat-borrower' a 'new-borrower' a 'start-up borrower' and a 'CSO borrower' from both a borrower and CDFI loan officer perspective. Section 7.5 starts by exploring information asymmetry and the loan officer concerns during the underwriting process. Information asymmetry relates to the differences in information between CDFIs and borrowers. Loan officers attempt to obtain information and craft this into knowledge to reduce borrower default on loans. Section 7.6 explores the difference between loan default and enterprise failure. It argues that loan default and firm failure can result in different types of outcomes for enterprises, and that

these outcomes can result in positive and negative impacts. This leads to an examination of loan performance, loan officer perceptions of impacts and perceptions over time. The final Section 7.7 draws together the themes that emerge throughout the chapter.

7.2 Embedded Isomorphism and Path-dependent Conditions that Surround CDFI Formation

This section begins by outlining the history and backgrounds of CDFI formation, to understand how each has developed over time, and how embedded isomorphic pressures and path-dependent processes have resulted in them learning from each another leading to them acting homogenously. The homogeneity between CDFIs relates to them having similar lending constraints and collecting and reporting the same impacts through them accessing the same sources of funding. Whilst CDFIs report the same impacts, impact of their lending will be different depending on the local economy in which they are operating.

7.2.1 Backgrounds of the West Midland CDFI CASE Partners

The idea of ART was conceived in 1991 as an independent not-for-profit social finance institution that would operate a revolving loan fund, with repaid loan capital being recycled to lend on to other borrowers. Following six years of consultation, ART was founded and the loan fund was established in June 1997 and ART began trading (Appleyard, 2008; ART,1999; CEO1, 09.05.11). A number of influential people were involved in the creation of ART (Appleyard, 2008:258): Sir Adrian Cadbury, Pat Conaty (then the Development Manager of

Birmingham Settlement, Vice Chair of *UK Social Investment Forum* (UKSIF), later helping to develop the *London Rebuilding Society* and *Wessex Reinvestment Trust*), and Danyal Sattar (former secretary of UKSIF, later working for the *New Economics Foundation* (NEF), *International Association of Investors in the Social Economy* (INAISE), *Charity Bank* and *Esmée Fairbairn Foundation*). At the same time ART Homes and ART Energy were established, the first being a capital release scheme for asset rich, cash poor individuals to release equity along with home improvement loans and the second being finance for energy reduction. ART Homes was a success, but detracted from the core business of enterprise loans and was sold to Mercian Housing in September 2006 (Appleyard, 2007). Since 1997, *'ART has lent over £9 million to businesses and civil society enterprises within the Birmingham and Solihull areas, in the process creating and saving jobs, and enabling business and social enterprises to start and survive'* (CEO1, 09.05.11).

BCRS is a not-for-profit organisation that provides loans to enterprises within the Black Country and Staffordshire that has lent up to £10 million, with an average loan size of £25,000 since its inception. Established in 2002, BCRS now employs nine people and had an interesting beginning. A local Co-operative Development Agency (CDA), itself set up by the previous Government, obtained funding from the local authority that was used to conduct research into access to finance issues. BCRS arose from the result of the Local Authority's research and was initially run by a consultant acting as CEO. The current BCRS CEO (2011) describes its beginning:

'We quickly realised this guy's value system was not aligned to the social enterprise sector. But he got us registered in April 2002...I then realised

that [with a] combination of commercial reality and...public sector involvement, that as long as it's achieving public sector policy then there would be funding... So we actually engineered getting rid of the consultant acting as chief exec and went to advertise to get someone new...I was acting in between so I thought I'll apply... I feel it's pretty much my baby. One of the early things that I did was to actually do a midnight flit from the co-operative development agency, actually pack the trunks of the car and just disappeared and I'm off.'

Following this, the CDFA suspended funds from the European programme. Nevertheless, the current CEO was able to use his contacts to ensure that BCRS continued being paid until June 2003. BCRS was funded with IPS from mainstream finance and private investors and then later obtained Phoenix funding. The BCRS CEO (2011) spoke about his experience of mentorship that he received from the CEO of ART:

'It's a classic one of a small business development, you get a bright person full of energy wants to move it on, got someone who can make it work...but doesn't have the full range of business acumen over the sector. A slightly older guy who does, builds a relationship where he mentored me through those early stages and then what sometimes happens is that the mentee outgrows the mentor in terms of impact, which is what has happened. But [the ART mentorship] was a fantastic help and without that we wouldn't have really got to where we are today.'

CWRT was proposed at a meeting of the Coventry, Warwickshire and Solihull partnership, a loose knit association that includes Business Link, Co-operative Development Agency, Amazon Initiatives¹⁸ and the local Councils. Following 18 months of consultation and development, CWRT was registered in 2004 and lending commenced in 2005. Funding for the first year lending came from the Phoenix fund. Following the delivery of those funds, CWRT obtained additional funding from AWM, ERDF fund, and a commercial development fund in partnership with the local council. In 2008, CWRT started to undertake personal lending, attracting funding from the Department of Work and Pensions (DWP). CWRT loans to enterprise range from £1,000 to £50,000.

CWRT occasionally undertake some mentoring to potential borrowers, although this is limited in scale. The CWRT CEO (2011) explains:

'Normally it's then a case that, we then go back to the potential borrower and say we are quite keen to lend, but we have the following issues. To a limited extent we will provide a bit of background and assistance, because obviously we have expertise within the office. But obviously because we are not funded, it's problematical. Often we will attempt to find them some additional help.'

Impetus is owned by the charity *Welcome to Our Future* and was established in 2004. Impetus promotes three aims; to help the local economy grow and thrive by providing funds to develop new work and job opportunities, to improve the

¹⁸ A social enterprise set up in 2000, offering business support to women and ethnic minorities in the Coventry and Warwickshire area.

economy and environment of the rural area in which they operate (Herefordshire, Worcestershire and Shropshire¹⁹) for the benefit of all the people who live and work there and to help keep the Marches economy turning (Impetus, 2014). Impetus attempts to achieve this by acting as a source of enterprise finance, making loans to applicants who have difficulty securing finance from other lenders, by increasing investment in the area and doing all they can to help ensure that the money stays in the local communities. Impetus provides loans of between £1,000 and £50,000 to enterprises that have been refused mainstream finance. Loans are repayable over six months to five years. In contrast to the other CASE partners for this project, Impetus and Welcome to Our Future, describe one of its main objectives as being to *'plug the leaks in our local economy – because money spent out of the area is money that is lost to the area. Impetus works to encourage money to stay in our local communities, generating wealth and promoting self-reliance'* (WTOF, 2012). Impetus was capitalised with £250,000 from the Phoenix Fund and received start up help and advice from Martin Hockley (Street UK, focusing on tackling doorstep lending), Steve Walker (having been involved with ART since its inception) and Paul Kalinaukas (who had just been through the same set up process at BCRS). Impetus currently employs five staff, although not all employees work full time.

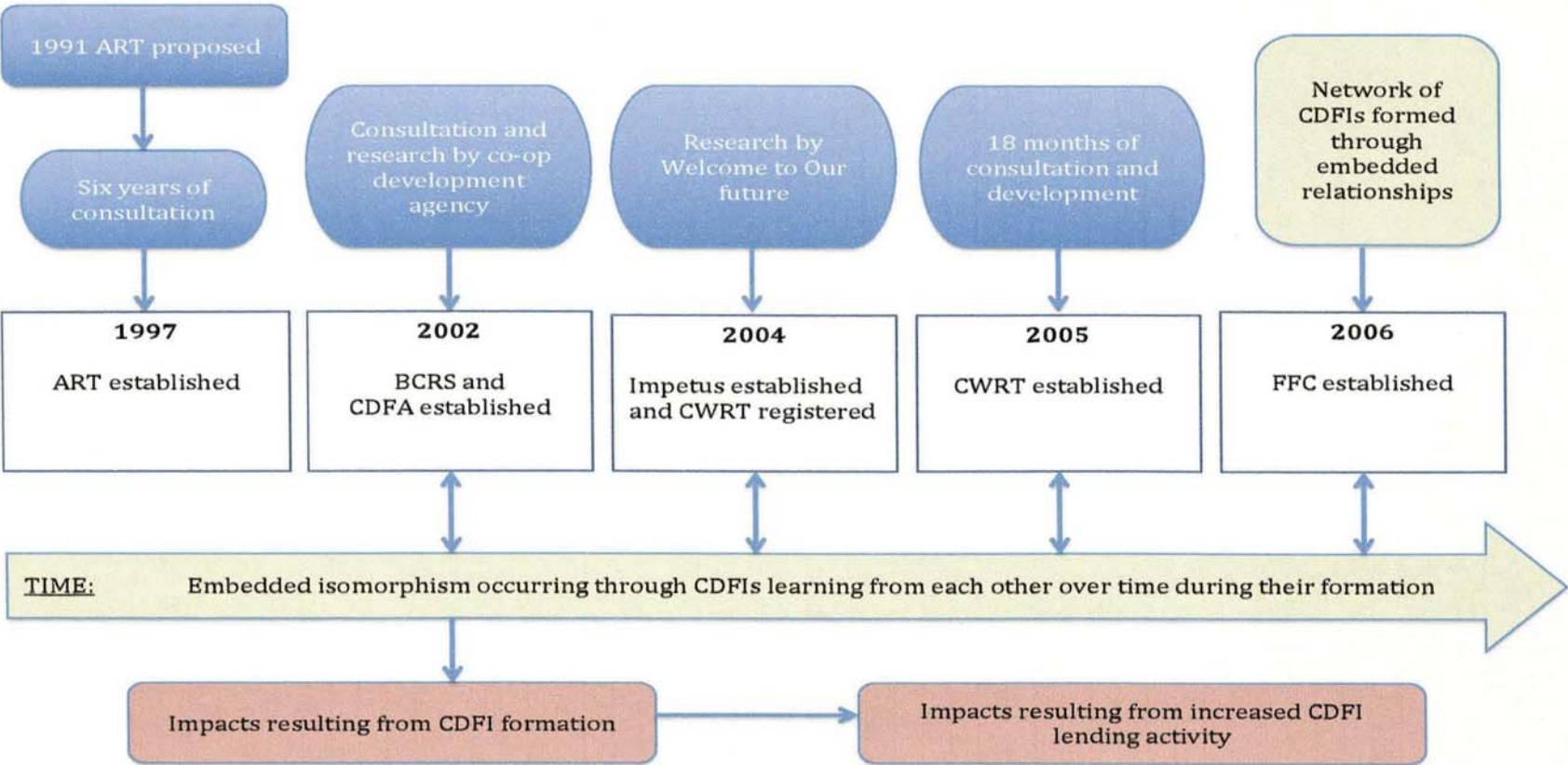
In 2005, the West Midland CDFIs formed the Fair Finance Consortium (FFC), an organisation that exists to develop the relationships between the West Midland CDFIs. The FFC helps them to share information and expertise, potentially leading to reductions in information asymmetry, and enhances referrals between

¹⁹ Collectively these border counties are known as 'The Marches'

CDFIs. One reason for the creation of the FFC and CDFA is to help professionalise CDFIs. This professionalisation of the sector is the CDFA response to the impact agenda imposed upon CDFIs by Whitehall and subsequent consultancy reports that are commissioned and produced to justify whether support for the sector should continue.

Exploring the backgrounds of CDFI formation highlights that CDFIs engage in a learning process that is grounded in the embedded relationships and isomorphic pressures that they experience (from mentoring relationships to accessing similar sources of funding) (DiMaggio and Powell, 1983; Granovetter, 1985), and through the use of consultants and research processes (Figure 7.1).

Figure 7.1 Timeline Summary of CASE Partner CDFIs and FFC Formation in the West Midlands



7.2.2 Path-dependent Processes within CDFI Operations

The embedded isomorphism that occurs during CDFI formation results in path-dependent routine processes (Sydow *et al.* 2005) occurring in their operational activity of lending to borrowers. These routines occur as a result of the impact KPIs that are attached to different sources of CDFI funding, as one CEO highlights:

‘The main one is, everything that we currently do is actually ERDF. So we have to comply with ERDF regulations. And there are quite strict rules such as evidencing bank statements, so on, having a couple of bank statements that shows the money went in and things like that’ (BCRS, 2011).

Funders place constraints on CDFIs relating to the types of enterprises that they lend to. When CDFIs have available capital of their own they will provide loans to enterprises that funders such as ERDF constrain them from lending to, for example, loans to retail enterprises. They do this in an attempt to diversify their loan portfolio and to lend in line with their individual mission objectives. This may be about a strategy to balance a CDFIs loan portfolio by ensuring that the higher risk loans are matched with safer loans. This is an example of adaptation and is also an idiosyncratic routine that will be individual to a CDFIs own mission and goals. This balancing process will reflect discussions and debates within the CDFI and the existing loan portfolio. At times CDFI routines change, such as through a new source of funding being identified and accessed which has attached to it a different set of KPIs, or an existing source of funding ending. In

these cases the existing path-dependent routine processes either continue, are either adapted or stop (Martin and Sunley, 2006).

There are a number of different types of isomorphism outlined by DiMaggio and Powell (1983) and Tuttle and Dillard (2007) that can be identified when CDFIs access similar sources of funds. Initially there is coercive isomorphism through the governance and impact KPIs that are attached to the particular source of funding. There is also normative isomorphism that occurs through the professionalism associated with CDFIs following the governance or 'rules' based KPIs, and evidencing the required information, such as bank statements. One group of stakeholders can be the CDFIs themselves, when they form a community of practice (Wenger, 2008). This stakeholder group consists of the other local and national CDFIs that share information and ideas. Considering this network in the context of accessing a source of funds, there is mimetic isomorphism occurring, due to the CDFI copying other CDFIs and applying for funding from the same scheme. There is also an element of competitive isomorphism (DiMaggio and Powell, 1983) between CDFIs, when they attempt to access the same source of funding and compete for limited resources. Competitive isomorphism relates to rivalry between enterprises, over resources and market share (Tuttle and Dillard, 2007:390).

Developing an understanding of CDFI formation, path-dependency and routine processes and the embedded isomorphism that occurs leads to an exploration of the characteristics of the individuals within the CDFI that are charged with

assessing and making loans to potential borrowers. The characteristics of the loan officers are explored next.

7.2.3 Characteristics of the CDFI Loan Officers

Five loan officers²⁰ from three of the CDFI CASE partners (ART, CWRT and Impetus) completed individual borrower questionnaires for each borrower interviewed that they had completed the loan assessment. Gathering information relating to the loan officers experience and backgrounds preceded the loan officer borrower specific questionnaires. Between them the loan officers had a total of 86 years lending experience, with the mean duration of employment being ten years. CDFIs often recruit people that have mainstream lending experience, and see this as an attempt to mitigate risk. Although, given the small size of the majority of CDFIs recruitment of new loan officers is not a common occurrence. Two officers had joined the CDFI with experience of mainstream bank business lending practices. One officer had previous experience in the finance industry that did not relate to business lending and two officers had no prior lending experience. Where the loan officers had no prior mainstream lending experience other employees within the CDFI did, thus providing a point of reference for these officers to obtain advice from experienced mainstream lenders. The loan officers were educated to a high level, holding degrees, advanced degrees or professional qualifications. They were all male with a mean age of 52. The loan officers were asked about their motivations for working at the CDFI. Common responses were that they considered the social missions and

²⁰ Four of the loan officers work full-time and one works part-time.

values of the CDFI, that the roles were not all about selling and that the opportunity presented itself at the right time.

7.3 Relationship Lending and the CDFI Lending Process

Relationship lending has increasingly become an area of interest for some financial institutions (Elyasiani & Goldberg, 2004). Relationship lending is a type of lending that relies on soft information, more qualitative in nature than quantitative. The lender acquires knowledge over time through multiple interactions with borrowers. These interactions consist of a mixture of face-to-face meetings, telephone and email exchanges and other quantitative interactions in the form of assessing financial information provided by borrowers, and stakeholders connected to them. This interaction helps to reduce information asymmetry. By evaluating opaque qualitative information that can be used to assess the viability of lending, loan officers are vital to successful relationship lending (Uchida *et al.* 2012).

CDFIs need to be flexible if they are to survive. Recognising current market forces and adapting to changes in mainstream bank lending to fill gaps left, whilst also considering risk has led some CDFIs to increase the size of loans that they provide. At present, loans are offered between £5,000 to £50,000 by CWRT and Impetus, and £10,000 to £100,000 by ART and BCRS and can be used for any purpose. The increase in the amounts that some CDFIs are prepared to lend is an indication of two things. Firstly, considering that CDFIs require a potential borrower to have been declined mainstream bank finance, there are enterprises

that are struggling to obtain mainstream funding between £50,000 and £100,000. Thus there is a gap in the market and demand for this level of lending. Secondly, CDFIs are attempting to reduce their exposure to risk by lending larger amounts to more secure propositions. Small loans can be risky, as borrowers usually have little in the way of security to offer. Additionally, there are psychological differences in the perceptions of borrowers when they consider loan size and interest rate. For a CDFI, smaller loans have a high administrative cost in relationship to the possible rewards, and they might also be a higher risk. Conversely, by lending higher amounts the CDFIs increase the risk to themselves if they lend without obtaining security. Large write-offs if a loan defaults will understandably have a greater impact on the value of the CDFIs loan fund and impact on their own sustainability. Too many large write-offs for a CDFI could result in the CDFI closing.

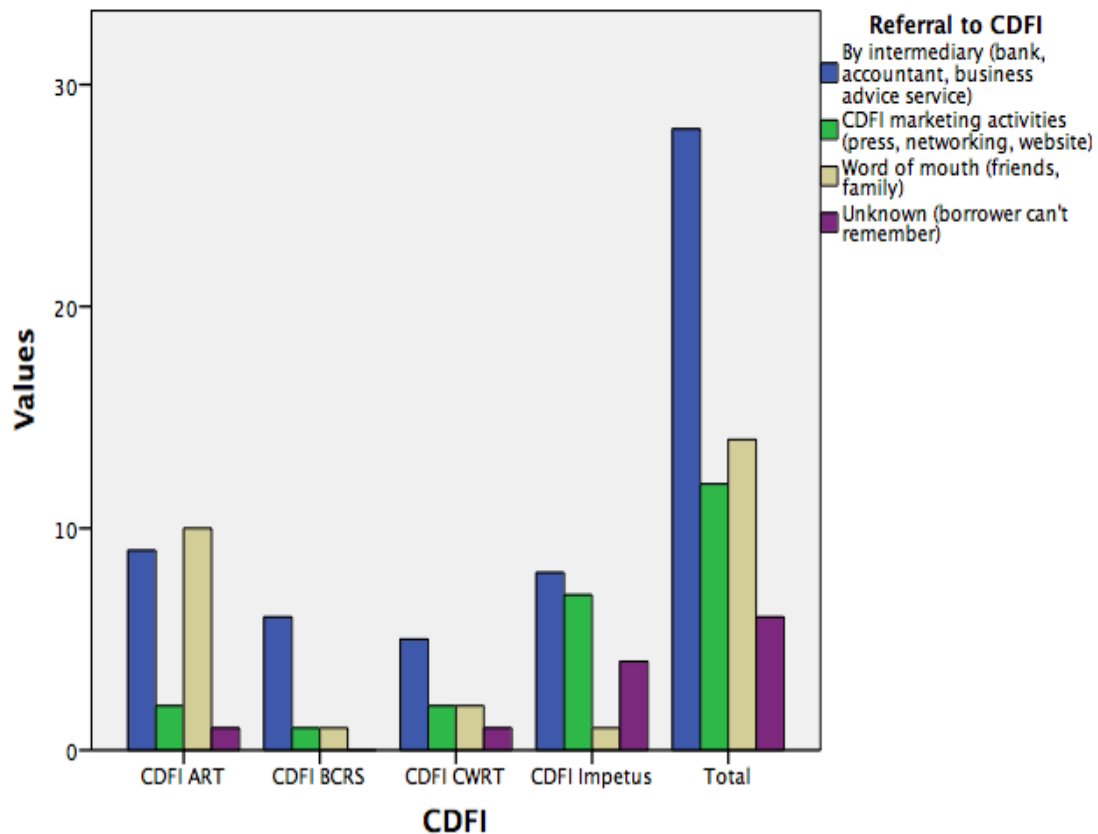
In theory, CDFIs should be geographically bound to their areas of operation. Derban *et al.* (2005) identified that local CDFIs make better lending decisions if they are locally embedded. Recently this has changed with one CDFI CASE partner now lending across the whole of the West Midlands and two others collaborating when lending larger loans. There are arguments for and against lending within clearly defined and separate areas. Being geographically bound provides a level of protection from competition by other CDFIs. As CDFIs struggle to become fully sustainable, requiring injections of public funds to counter the impact of collective write-offs over time, direct competition by other CDFIs will hinder this struggle. There are increased costs in lending over a wider area and inherent risks of lending in unfamiliar territories. Many CDFIs mission

statements relate to local lending in local areas to local people. Lending beyond these areas undermines the individual missions of the CDFI. Inversely, lending geographically prevents customers from having a choice of CDFI service and from obtaining access to the best CDFIs in the country. Competition leads to innovation as competing enterprises develop new products and services further benefitting customers. During the application process, CDFI loan officers engage in underwriting activity to assess the potential impacts of a loan and the viability of the business propositions. This form of relationship lending depends on close relationships being formed between loan officers and borrowers. The mechanics of the CDFI lending process of the four West Midland CDFIs is explored next.

7.3.1 CDFI Lending Process

During the initial meetings, the CDFI CEOs were asked about the lending process. Broadly the four CDFIs operate in the same way. The general process is outlined, although there are differences and the lending process can vary on a case-by-case basis. Initially, an enquiry is received by telephone or email, or in some cases contact is made at a networking event. Borrowers were asked about how they were referred or first heard about the CDFI. The results highlight that the introduction of borrowers to CDFIs occurs in three main ways (Figure 7.2).

Figure 7.2 Mapping the Methods used by Borrowers to Identify a CDFI (n=60)



During the initial contact, information relating to the purpose of the loan and financial exclusion is obtained along with basic contact information, name, telephone number, email and location of the business. If the initial enquiry results in a proposition that fits with the CDFIs core values then an application pack is sent out by email or post. At some CDFIs an initial meeting will be arranged between the prospective borrower and loan officer to discuss the application further. The initial contact ensures that the potential applicants are vetted to ensure that the loan application can proceed. It acts to highlight the social values and impact measures that are desired by the CDFI to the

prospective borrower. Here, the loan officer can verbally decline a potential application from an enterprise operating in sectors that do not fit with the CDFIs core values. Application packs vary, but often include welcome notes, application form, monitoring forms, state aid declaration, EU environmental performance form and a permission request to undertake credit searches. Additional information in the form of bank statements and bank decline letters are also requested. The information contained within the application will again highlight the types of impacts that the CDFI is interested in generating.

Once potential borrowers return the completed application form the loan officer from the CDFI will check to ensure that it is complete and if necessary chase for any incomplete information. The assessment of applications varies slightly between the CDFIs. For example, ART, BCRS and CWRT undertake lending panels, whereas Impetus does not. Instead at Impetus all applications are assessed by a minimum of two employees and applications that are considered high risk (or which involve larger amounts), may be assessed by other employees. Assessment of returned applications can be categorised into three groups; impacts, risk and business activity.

Initially an application is assessed on whether the loan meets the social impact criteria of the CDFI. This identifies whether lending will fit with the mission statement of the CDFI and expected impacts. This highlights that impact is woven through the CDFI lending process and is not just measured following the lending. Additionally, the different social orientations of the CDFIs developed during their formation results in them producing slightly different impacts.

Risk is weighed by a process of underwriting, which looks at bank statements, credit reports and financial statements and projections. This in itself is a form of credit scoring potential borrowers. Bank statements can reveal a wealth of information that indicates a persons or enterprises ability to repay the loan. For example, returned payments, charges, cancelled direct debits or standing orders along with payments to finance companies often indicate whether someone is having financial difficulties. The assessment of risk also includes identifying whether there is the potential to secure the loan either against assets or through a guarantee. If security is available (or offered by the applicant) then there are additional administration processes that have to be undertaken adding to the duration of the loan application process. Whilst closely related to risk, the business activity involves exploring the purpose of the loan from information obtained from the application, business plan and discussions with the borrowers. In this respect each enterprise will have a different purpose and requirement for the finance. The loan officers and CDFIs have to make a decision on whether this narrative forms the basis of a sound financial investment from the CDFI. Risk and business activity provide the CDFIs with an indication of the potential loan performance.

The assessment the impacts that will (or that are perceived) to arise from the loan is considered during the underwriting process. These are discussed by lending panels (where applicable) and weighed against the potential for loan performance. Following the application and underwriting process a decision is made on whether to lend or not to lend, and the prospective borrower is informed. If the conditions of the loan are accepted by the borrower, and

following them signing the loan agreement and terms and conditions, the funds are credited to the borrower and repayment begins. Following the drawdown of the funds by the borrower the CDFI will start to monitor impacts. Some impacts (business created, business saved, jobs saved, gender, and ethnicity) can be recorded immediately. Typically additional monitoring occurs quarterly, with borrowers being requested to provide information on the number of new employees (where job creation was an impact).

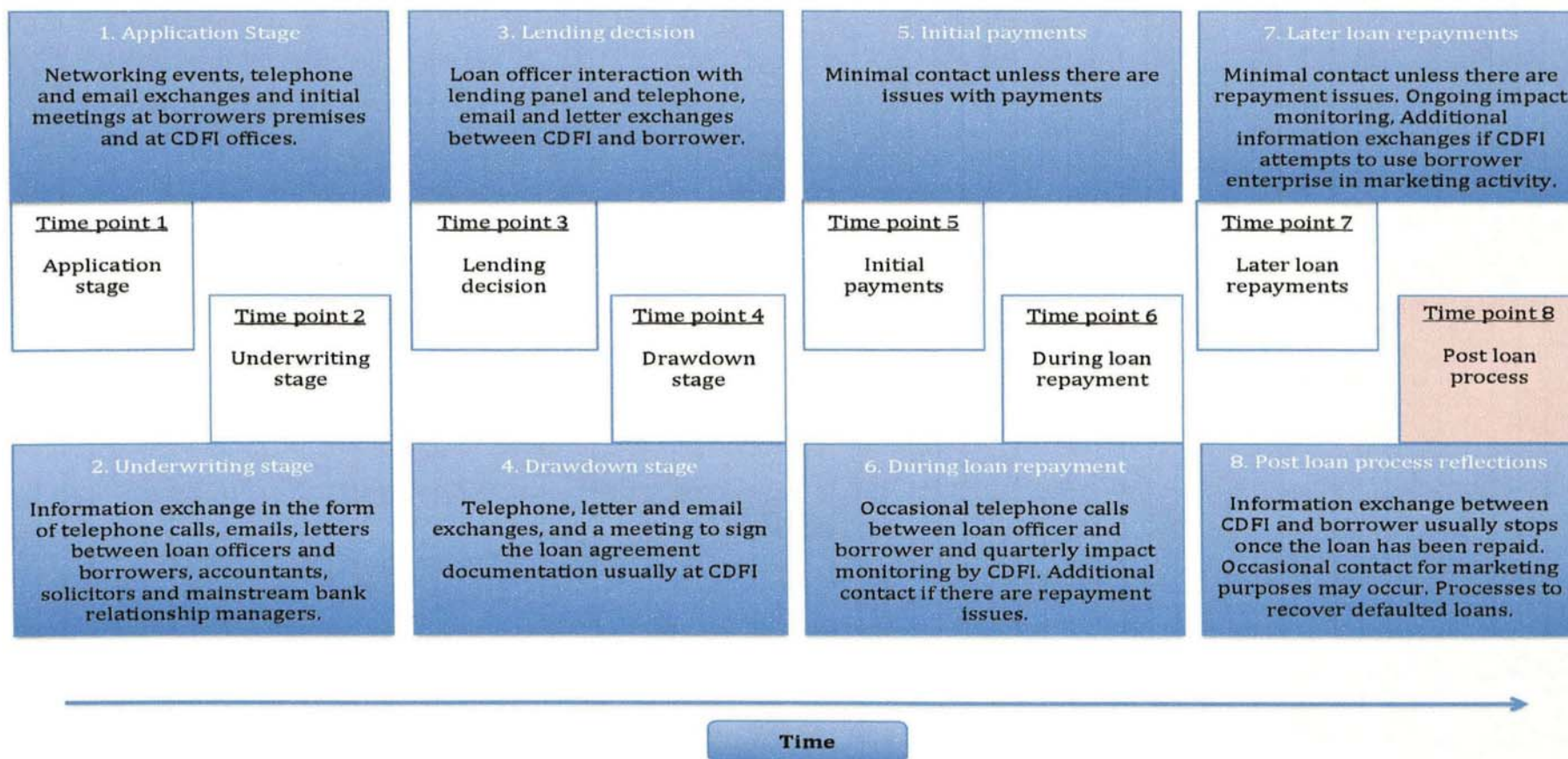
Following the repayment of the loan, and where no further loans are made, the impact monitoring and business relationship between borrower and CDFI ceases. This highlights that there is a time element to collecting and reporting impacts. Yet, impacts continue after loan repayment and these long-term impacts can often be traced back to the initial lending by the CDFI. Maintaining a longer-term impact relationship would be problematical for CDFIs, as there would be no requirement for borrowers to provide the impact data. Thus, it is not strange that relationships are not maintained. This is especially true of enterprises that succeed and businesses that become bankable. This was demonstrated during the borrower interview stages which highlighted that in a number of cases, there had been significant positive (and negative) changes former borrowers clients.

Exploring the CDFI lending process highlights that a CDFI loan event provides a number of different opportunities for a process of information exchange and accumulation of knowledge between the loan officer and borrower to take place. These different moments of opportunity, or 'time points' are discussed next.

7.3.2 Seven Time Points of Information Exchange and Post Process Reflections

CDFIs acquire information and develop it into knowledge through a mixed process of vicarious and experiential learning. Within the CDFI lending process there are multiple interactions between loan officers and borrowers that can be categorised into seven different opportunities to acquire different information and understandings of the borrowers, followed by an eighth stage that is the reflection on the first seven stages of the loan process. Each of these 'time points' is a part of an accumulative mix of information that leads to the development of an enhanced level of understanding, or knowledge during the course of a loan. The different time points of information exchange and the accumulation of knowledge for a CDFI loan occurs at the application, underwriting, lending decision, drawdown, initial payments, ongoing repayment, later repayments stages and is followed by post loan process reflections. The subsequent section explores some of the different characteristics of information exchange and accumulation of knowledge from the time points (Figure 7.2).

Figure 7.3 The Seven Time Points of Information Exchange Between Borrowers and Loan Officers and Post Process Reflections



At networking events and through marketing activity potential borrowers are encouraged to approach the CDFI. This partly reflects that there are internal processes within a CDFI for monitoring the number of applications and the number of loans made, which are reported by the CDFA. Once a borrower approaches a CDFI the initial application stage begins with the loan officer checking that the potential loan meets the CDFIs social impact criteria. This will result in an initial decision on whether to accept the application and move to underwriting stage or reject the application due to it not meeting the CDFIs social impact criteria. During the underwriting stage of the application process, CDFI loan officers engage in underwriting activity to assess the potential impacts of a loan and the viability of the business proposition. This involves them assessing the available information that is provided by the borrower and obtaining additional supporting evidence from stakeholders connected to the borrower. The collection and assessment of information during the application process leads to a requirement for the CDFI to make a decision.

The lending decision involves the CDFI engaging in both internal and external information exchanges of information. First, conducting a 'lending committee' or in the case of one of the four CDFIs a less formal internal discussion takes place between the loan officer and other employees within the CDFI that weighs the impacts, business viability against the potential risk of lending. Second, following the lending decision process the application is either accepted or rejected, and the borrower is informed of the decision. Once a lending decision has been made, and if the loan decision is to accept the application, the borrower makes a decision on whether to continue with the application and drawdown the funds.

At this point some borrowers might decide not to proceed with the loan and there is often a delay between loan approval and drawdown.

Having accepted the loan, and following the drawdown, the loan repayment starts in accordance to the loan terms and conditions and schedule of repayment. The first few loan repayments provide the loan officer and CDFI with information in two main ways. First, successful or unsuccessful initial payments by the borrower provide an initial impression or indication on the efficacy of the underwriting and loan decision stages. Second, if there are issues with initial repayments the borrower will be contacted to discuss the nature of the problem, and identify a possible solution. As the loan progresses, the CDFI will gain an enhanced understanding of the borrower's enterprise, through the ongoing quarterly monitoring of impacts and sporadic interactions with borrowers. Again, if there are issues with repayments additional contact will be made that attempts to address the issue. Later in the loan repayment cycle the CDFI will have developed an enhanced level of understanding of the enterprise, borrower and sector which is reinforced through a cycle of continual impact monitoring and client contact. At later time points following the drawdown a CDFI might explore the potential for using the borrower enterprise as part of its strategic marketing. This usually takes the form of a case study demonstrating how the CDFI has helped the borrower and the impact that has been created from the lending. This routine process involves an additional exchange of information, through personal meetings to take marketing photos and telephone and email correspondence. The post loan process reflections occur as the loan progresses, or following the successful or unsuccessful repayment of a loan. During this stage

there may still be exchanges of information if the loan has defaulted and the CDFI is attempting to recover funds from the borrower. The next section explores the lending processes of the four CDFIs and different time points through a series of case studies.

7.4 Case Studies Highlighting the CDFI Lending Process and Impacts

To develop an understanding of the CDFI lending process and accumulation of information and knowledge, four different loans are outlined. Each example highlights a different set of loan circumstances from; 'new borrower' defined as a borrower obtaining their first CDFI loan, a 'start-up borrower' a 'repeat borrower' (defined as a borrower with two or more loans) and a CSO; each from a different CDFI. Within the data set of 60 borrowers, there were 41 new borrowers, of which 17 were start-ups and 19 repeat borrowers, and three CSOs. The cases are informed from; the CDFI scoping meetings, loan files, the borrower interviews and lending officer questionnaires.

Selection of case studies involved a process that aimed to identify a case from each CDFI. Initial filtering of the sample was undertaken for borrowers with loans between £10,000 and £40,000. This left 40 borrowers eligible for inclusion. One of these was a CSO borrower with a repaid loan from ART. Thus, the remaining ART and repaid borrowers were filtered out. Further filtering to avoid duplication of the three types of borrower enterprises within each group was undertaken and to ensure that each CDFI was represented. This left 11 borrowers. These were further filtered by whether the borrower was developing

a new product or service (the most significantly correlated wider impact from the statistical analysis) and loan duration, which attempted to identify loans issued on a five-year term. Of the full sample of 60 borrowers, 27 were innovating and 26 had obtained their loan on a five-year term. This would provide a longer period of reflection to have occurred by the loan officers (Table 7.1).

Table 7.1 Justification of the Selection of the CDFI Lending Process

Borrower Case Studies

No.	Client	Category	CDFI	Innovating	Loan duration	Selected
1	C13	New	BCRS	No	3	
2	C17	New	BCRS	No	3	
3	C30	New	Impetus	Yes	5	Selected
4	C34	New	BCRS	No	3	
5	C42	New	BCRS	Yes	3	
6	C14	Repeat	Impetus	No	3	
7	C44	Repeat	BCRS	Yes	3	Selected
8	C57	Repeat	Impetus	No	5	
9	C46	Start-up	CWRT	No	5	Selected
10	C51	Start-up	CWRT	No	2	
11	C59	Start-up	CWRT	No	3	
12	C35	CSO	ART	No	5	Selected

Note. Loan duration shown in years.

7.4.1 Case One: The Loan Application Process of a 'New Borrower'

The first enterprise is a 'new borrower' operating in the manufacturing sector. The enterprise was established in 2011, when the borrower embarked on a two-year period of research and development to create a new consumer product aimed at pet owners. The majority of the manufacturing occurs in China and the goods are imported into the UK where they are assembled and packaged into the finished product. This finished product can then be sold in domestic and foreign markets. For the two-year development phase the borrower utilised his personal savings and an inheritance and worked full time on his business. The CDFI loan was obtained from Impetus in 2013, and was for £30,000. The borrower had identified the United States as a key sales market and required the CDFI loan for two reasons. Firstly, to complete the US patent process he had started and secondly, as working capital to pay for stock imported from China. At the time of the interview no turnover figures were available.

When asked how he learned about Impetus the borrower explained; 'I was in a meeting with someone at UK Trade and Industry (UKTI) and he mentioned Impetus so we got in touch with them' (C30, 22.03.13). Having made contact with Impetus and completed the initial vetting the borrower outlines how the loan officer overcame information asymmetry (Altman, 1968; Stiglitz and Weiss, 1981; Mayo, *et al.* 1998) which had the potential to prevent the CDFI from lending:

'There was a meeting with the loan officer, who came over to look at the product and what we were doing, and talk about the business plan...he is a very down to earth guy and was like, "I'll be honest I

wasn't really into this idea but now at this meeting I can see the potential." He didn't see the value at first but then he took it back and he showed his colleagues who were all quite excited...and [after] due diligence they did the loan' (C30, 22.03.13).

The due diligence for this loan included a guarantee and debenture. The application process for this loan was not straightforward due to Impetus urging borrowers to seek independent legal advice before signing the debenture, as the borrower explains:

'Impetus are good in a sense in that they insist that the debenture must be looked at by a solicitor first. We found a solicitor and went through the debenture and he really scared us, saying that Impetus could at any point, if it was deemed by Impetus that the business wasn't performing, demand their money back. It didn't say what the period of notice was, it didn't really say what the circumstances were and they had rights to all our assets including our IP. That is the thing with a company this early on, the value is in being able to protect the trademark and utility patent so giving them the right to come in on a whim...an accountant might look over the figures and think this doesn't look good to me' (C30, 22.03.13).

When asked about how he overcame the issues with the debenture the borrower explained:

'Solicitors are looking at angles, they have got a client and they want to make money, so they want to bill you for several hours... I went back to Impetus with some of our fears. The loan officer explained

the logic [explaining how] there have been instances where a company is going downhill and they will pay their monthly payment [and] strip assets out of the company before they default. In the end they agreed to take that clause out so that made the whole agreement workable for them and for us' (C30, 22.03.13).

Impetus, do not undertake lending committees or loan panels. When questioned about why the CDFI granted this loan the loan officer outlined that the borrower had; 'high commitment, lots of prior investment, that the product was ready and most of the problems had already been encountered and dealt with' (L04, 11.09.13). The impacts reported in the loan officer questionnaire were that the business had a high potential for growth and that it was a start-up. The CDFI was able to claim business creation as an impact, despite the fact that the business had been established two years previously, as the enterprise had not started trading at the time of the loan.

The first case highlights how, through relationship lending, the loan officer developed an enhanced level of understanding by accumulating information from different sources and at different time points, to overcome his initial reluctance to lend. There was also a reciprocal process of information exchange with the CDFI needing to provide the borrower with additional information relating to the loan terms. The exchange of information and accumulation of knowledge reduced information asymmetry between both the borrower and the lender.

7.4.2 Case Two: The Loan Application Process of a 'Start-up Borrower'

The second enterprise was a 'start-up borrower' operating in the service and retail sector. The enterprise was established in May 2012, is female-led and has an annual turnover of £65,000. The borrower obtained a £15,000 loan from CWRT in 2012, on a five-year term. The loan was used for working capital, to purchase stock and pay salaries, whilst the enterprise established itself. The borrower outlined the enterprise activity, stating; 'we have two income streams at the moment, a retail shop and large studio space where we run a whole series of different craft workshops' (C46, 18.06.13). At the time of the interview the loan had been in repayment for one year, and the borrower highlighted that the first year accounts had shown that the business had made a small profit.

Crowdfunding was explored as a possible suitable alternative form of loan finance when she was declined for a loan by her mainstream bank. Crowdfunding is a relatively new form of alternative finance, whereby individuals seek to raise capital, usually through online platforms, to fund business ventures, charitable enterprises, or projects. In return for a small investment in the enterprise or project, investors gain either a financial or non-financial return. Belleflamme *et al.* (2014:585) explain that 'the basic idea of Crowdfunding is to raise external finance from a large audience (the "crowd"), where each individual provides a very small amount, instead of soliciting a small group of sophisticated investors. The borrower decided that Crowdfunding was not a viable option for her business and after continuing to search for sources of finance identified CWRT from an Internet search.

After making initial contact, the borrower met the loan officer from CWRT to have a look at the retail location before having coffee and discussing the business proposal. The CDFI loan officer did not have any concerns at the application stage and the loan was granted based on standard CWRT lending criteria, whereby the loan officer assesses the viability of the business proposition and impacts (LO3, 29.08.13). In this case the borrower was able to offer collateral in the form of a debenture on the family home. One borrower concern was mentioned. This was that the CWRT lending panel meets once a month, and the borrower felt that this coupled with arranging security resulted in the lending process taking a long time. Exploring the lending process highlights some of the intangible impacts that are created by CDFIs, alongside the first CDFI impact of providing finance to financially excluded individuals. The borrower explained; 'I think one of the biggest impacts of CWRT is the freedom that it gives people to start their own business. The banks aren't going to lend to small business' (C46, 18.06.13).

For the loan officer at CWRT this loan was issued due to the borrower being able to provide security (LO3, 29.08.13). The loan officer noted that arranging security involved additional administration and consultation with solicitors. The impact considered as part of the lending process by the loan officer and lending board were that it was a start-up enterprise and the anticipated job creation. Additionally, the loan officer envisaged potential for business growth which would result in further job creation. There was one issue with the loan that raised concerns. This focused on a missed payment after the first few repayments had been made. The loan officer indicated that 'contacting the

borrower and changing the date of the monthly payment resolved this issue' (L03, 29.08.13).

The CWRT loan highlights that the lending process can involve more than one path-dependent routine process (Sydow *et al.* 2005). First, there is the initial routine of reviewing and assessing the application and second, there is a routine process that involves engaging with solicitors and completing additional administration. The loan to this borrower highlights that loan officers may obtain vicarious information during the application and underwriting time points, but that after the loan is drawn down the level of understanding increases. In this case, all that was required to overcome the initial concern was additional information and the ability of the loan officer to use his experiential knowledge and find a solution.

7.4.3 Case Three: The Loan Application Process a 'Repeat Borrower'

The third enterprise is a 'repeat borrower' operating in the service sector that provides a marine engineering service to member clients. The enterprise was established in 2000, is female-led and has an annual turnover of around £250,000. It first obtained a BCRS loan in 2008 for £15,000 on a two-year term. The initial loan was used to help the business with rebranding and marketing. In 2010, just prior to the initial loan being repaid to schedule, the enterprise obtained a second loan for £23,000 on a three-year term. The second loan was used to fund a project that would provide the business with an additional complementary revenue stream. This project was forecast to create three new

jobs and save six jobs. At the time of the interview (March 2013) the second loan was ongoing and due to be repaid in December 2013.

The enterprise had first attempted to access other funding schemes including the *Loan Guarantee Scheme*, and *Small Firm Guarantee Scheme* without success, as the borrower outlined; 'all the Government backed schemes, we tend to find that they make you jump through hoop after hoop and never actually lead anywhere' (C44, 07.03.13). When asked about how she was referred to BCRS the borrower outlined 'we were introduced through Street Loans from which we had obtained a loan of I think £1,000 or £2,000, in 2005. They actually only offer loans to personal clients now but they did offer them to business.' The Street Loans referral highlights some of the nature of the embedded relationships (Granovetter, 1985) that exist between different providers of additional finance (Podolny, 1994; Sterns and Mizruchi, 1993; Abolafia, 1996). Discussing the BCRS loan application, the borrower highlighted:

'I found [BCRS] very easy to deal with...they dealt very much on a face-to-face value, used a guarantor and we have never not repaid a loan but the banks don't take that into account...I think that banks should learn a lesson from this and go back to the old way of banking, which was to rely on their managers to make decisions rather than leaving it all up to a piece of software that doesn't give the bank managers any autonomy whatsoever to understand the business, its needs and what they are trying to achieve' (C44, 07.03.13).

Following a meeting with the borrower BCRS produce two main documents; a Loan Appraisal and Small Business Loan (SBL) declaration. The SBL is a single page document that the borrower needs to sign. It provides a summary of the borrower and enterprise details, loan details and impacts. It highlights that the capital for this loan came from ERDF (50%) and public leverage (50%). The loan appraisal outlines the case for business lending and includes information on; social impact, background, history, project description/use of proceeds, market, main individuals, strengths and weaknesses, outcomes of credit checks, security, financials, source of enquiry and rejections by banks. The rejection section highlighted the details of a conversation between the CDFI loan officer and the borrowers mainstream business bank manager. In this case the bank rejected any further lending due to being 'at the limit of its appetite' to lend. Finally, a credit committee, consisting of four BCRS employees, signs off the Loan Appraisal. Headlined at the start of the Loan Appraisal are the social impacts. This indicated that the loan would save six jobs and was forecast to create three new jobs. Eight further jobs were unaffected. Additionally, the business being female-led was highlighted as a social impact, this being an impact collected by the ERDF. At application the enterprise employed 14 staff. During the interview the borrower outlined that they now employ 17 people, thus, the three jobs forecast during the application had been created.

BCRS will have monitored the creation of the three new jobs during the course of the loan by contacting the enterprise quarterly. This is applicable to all BCRS borrowers as the CEO explained; 'we get quarterly data for each of our customers, we have to chase...for it and we don't get all of it. It's quite onerous

[but] the actual things they send is quite easy, like, last three months in terms of sales, how many people taken on' (CEO4, 18.05.11). The quarterly collection of impacts is a routine process that occurs in CDFIs (Nelson and Winter 1982). This is a process that is imposed on CDFIs by funders who require the collection of impacts. Yet, it is a subsidiary routine of the CDFIs that sits behind primary routines of attracting borrowers, lending to borrowers and obtaining funding to maintain the CDFI.

A repeat borrower may be a safer risk for a CDFI, but there is a tension relating to why the borrower has not become more bankable after the first loan and with 13 years of trading successfully. The CDFI may have encouraged the borrower to re-apply as part of a lending strategy to balance its loan portfolio and have a higher number of low risk clients. There is a perhaps a tension between the reason for obtaining the loan and the application stating that the loan would save six jobs and create three jobs. The initial loan would have reduced information symmetries between the borrower and the lender and the borrower would have been aware of the CDFI impact criteria and how to strengthen her case for a second CDFI loan.

Once a CDFI has lent to a borrower, they have been through the seven time points of information exchange and accumulation of information. When a borrower applies for a second loan the CDFI is able to draw on the experiential learning and reflect on the first loan cycle. There is a danger in this if a CDFI assumes that they know everything from the first loan cycle. The company may have changed and the characteristics of the second loan may not reflect the

characteristics of the first loan. Loan officers need to repeat the cycle of learning and incorporate the feedback that they will have accumulated into subsequent applications when undertaking this type of relationship lending.

7.4.4 Case Four: The Loan Application Process of a 'CSO Borrower'

The fourth enterprise was a 'CSO borrower' that successfully repaid a CDFI loan, but whose enterprise failed after the 2008 credit crunch and subsequent Government austerity measures, changed the macro environment, making the firm non-viable. The enterprise was an agency that organised *ad hoc* childcare services on behalf of the local Government authority. After its inception in 2004, the enterprise grew to have an annual turnover of around £300,000. The CDFI loan was obtained to overcome a short term cash flow crisis, and the borrowers mainstream bank was initially reluctant to provide any finance. After the £25,000 CDFI loan was granted, the mainstream bank later agreed an overdraft facility. The CDFI financing allowed the borrower to pay staff salaries with a cushion of funds that could be used to develop new markets.

When asked about how important the loan was the borrower was quite clear that the CDFI loan saved the enterprise: '*we would have been bankrupt otherwise*' (C35, 04.03.13). In addition to saving the enterprise, the loan preserved 15 full time jobs and 28 part-time jobs. The CDFI loan highlighted to the mainstream bank that the business was, at the time, viable and a £7,000 overdraft facility effectively resulted in a finance facility being leveraged into the enterprise. The loan allowed the enterprise to continue trading for a further three years through

the hardest years of the credit crunch. This meant that a diverse range of childcare workers continued to be paid: *'there were 30 women working for us and there is no way they could actually survive, you know, they have got mortgages, bills to pay and everything'* (C35, 04.03.13). When the business was wound-up the employees were made redundant. The economic climate, whilst still bad, had improved from the major redundancies of 2008. Thus, an idiosyncratic impact of this loan was that former employees had been 'sheltered' from the worst effects of the 2008 credit crunch and entered the job market at a time when employment opportunities were improving.

The borrower was very satisfied with the CDFI loan and application process. She was not referred to the CDFI as having worked in the social sector for many years, knew the CEO of the CDFI personally. The borrower indicated that she has made several referrals to the CDFI. The longstanding relationship between the borrower and the CDFI produced an additional impact: *'if we had run out of money my colleague and I had made the decision that we would pay it off personally, even though there wasn't a personal loan requirement. We would have felt we had a moral obligation to have paid it off ourselves.'* Working in the social sector, the borrower was well aware that the CDFI has the ability to write off loans for failed businesses but: *'it made such a massive difference to us that we wanted to honour what we had undertaken which was pay the loan off.'* The borrower expressed an immense sense of pride that the business managed to repay the loan.

From a loan officer perspective this borrower loan was issued due to the ongoing support provided by bank, albeit that the bank had reached its lending limit. The impacts considered as part of the lending process were that the loan would result in good job preservation and potential job creation. The loan officer saw that there was 'the potential opportunity to expand the CDFIs base of social clients by lending to an established and profitable enterprise' (LO2, 15.08.13).

The loan to this enterprise illustrates how an external shock can result in the breakdown of a path-dependent routine (Sydow *et al.* 2005). This was in the form of the reliance of the enterprise on local Government authorities. The borrower was unable to adapt the path following the shock (Martin and Sunley, 2006). It highlights that CDFIs are embedded in local networks and communities of practice (Wenger, 2008) as the borrower knew one of the employees at ART prior to obtaining a loan.

7.4.5 Summary of the Case Studies

The case studies with the four different borrowers illustrate a number of different types of information exchange and accumulation of knowledge by both the CDFI lenders and the client borrowers. The CDFI may know about the sector of an applicant, but the accumulation of information obtained during the loan cycle will be individual to each borrower. When underwriting loans, the loan officers are attempting to apply their experiential learning to the idiosyncratic behaviour of each individual borrower. This is also a battle to obtain sufficient information from the borrower to make an informed loan decision. Exploring the

ways in which CDFIs reduce information asymmetries through the accumulation of information at different time points during loan cycles leads to an analysis of the information asymmetry between loan officers and borrowers.

7.5 Information Asymmetry between Borrowers and Lenders

This section explores the information asymmetry that occurs between borrowers and CDFIs at different time points. Information asymmetry between borrowers and lenders is not unexpected (Lean and Tucker, 2001). There are different levels of information asymmetry and knowledge exchange within the time points. Paradoxically, once the decision to lend has been made, by the CDFI, the additional information obtained during the course of the loan will lead to loan officers being able to better assess the viability of the loan proposal. What is occurring is an accumulation of information during the course of the loan with information being obtained from many different sources from the borrower. One way to explore information asymmetry is to examine the differences in how borrowers and CDFIs perceived that loan funds were used, by comparing the loan file data with the responses from the borrower interviews (Figures 7.4 and 7.5). The most common use of the loan funds identified by both borrowers and CDFI is for working capital. Loan officers are able to distinguish when funds are used for capital investment. This highlights a reduction in information asymmetry. Possibly this is because loan officers explore the options for obtaining security against capital investment.

Figure 7.4 Borrower Use of Loan Funds, by CDFI (n=60)

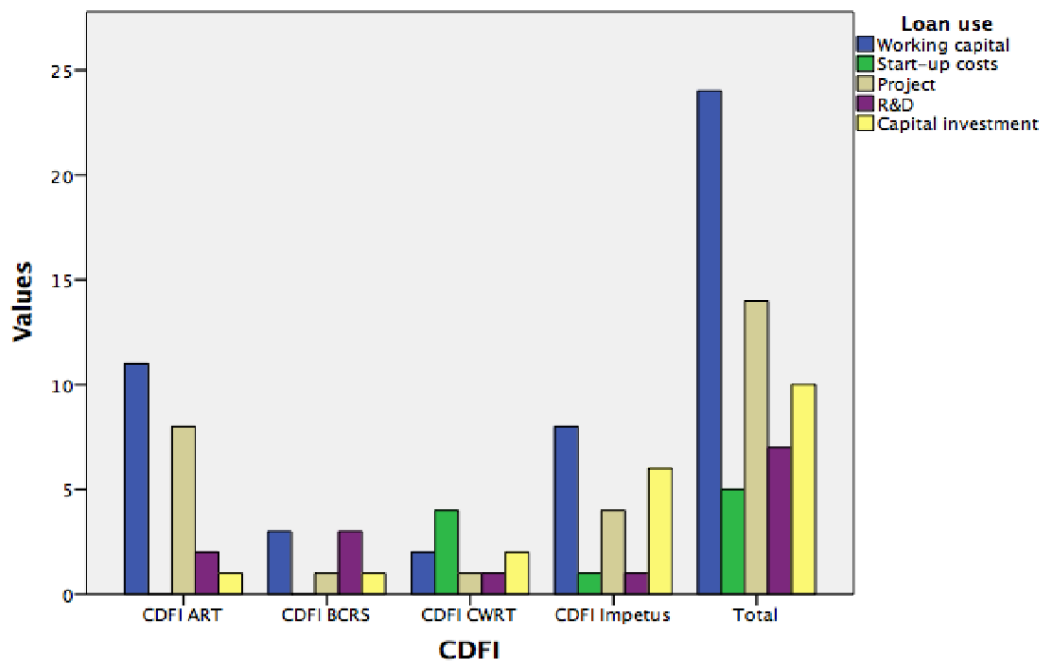
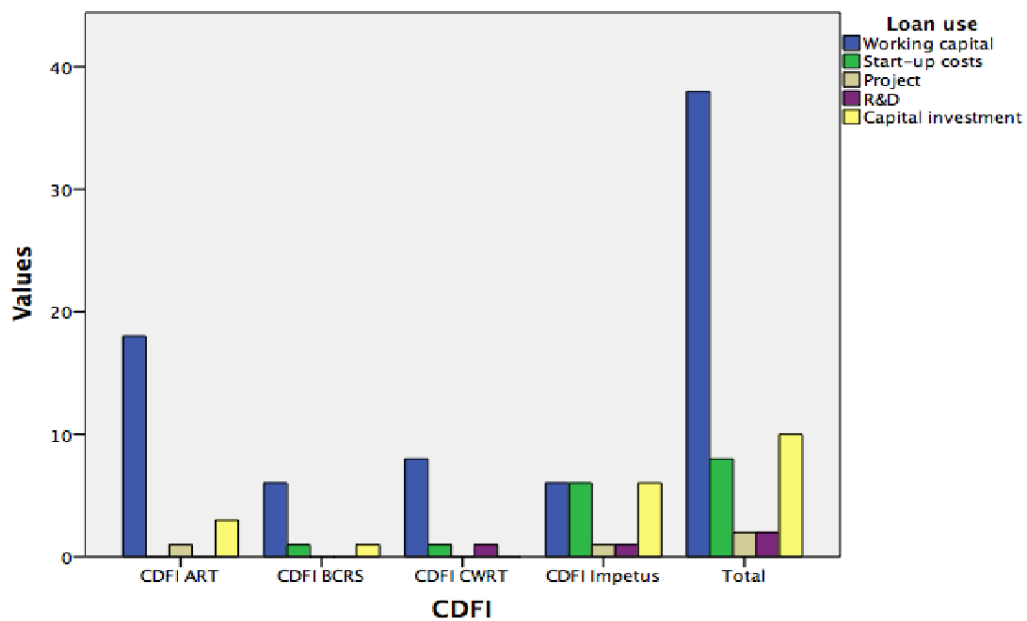


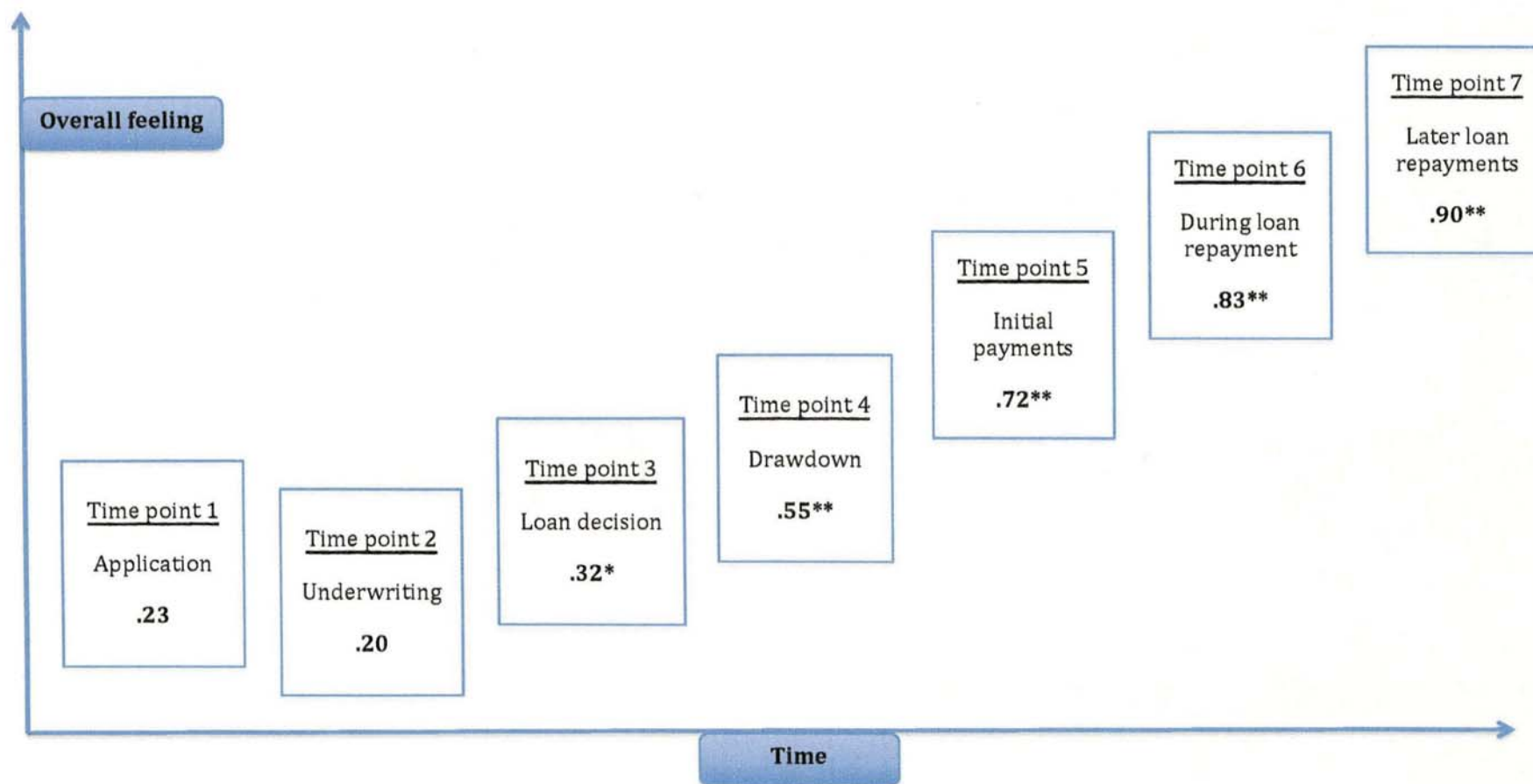
Figure 7.5 Loan Officer / CDFI Perceptions of Borrower Use of Loan Funds, by CDFI (n=60)



Note. Cross-tabulation variables coded on a binary scale (no = 0 / yes = 1), BCRS data informed by SBL loan file document.

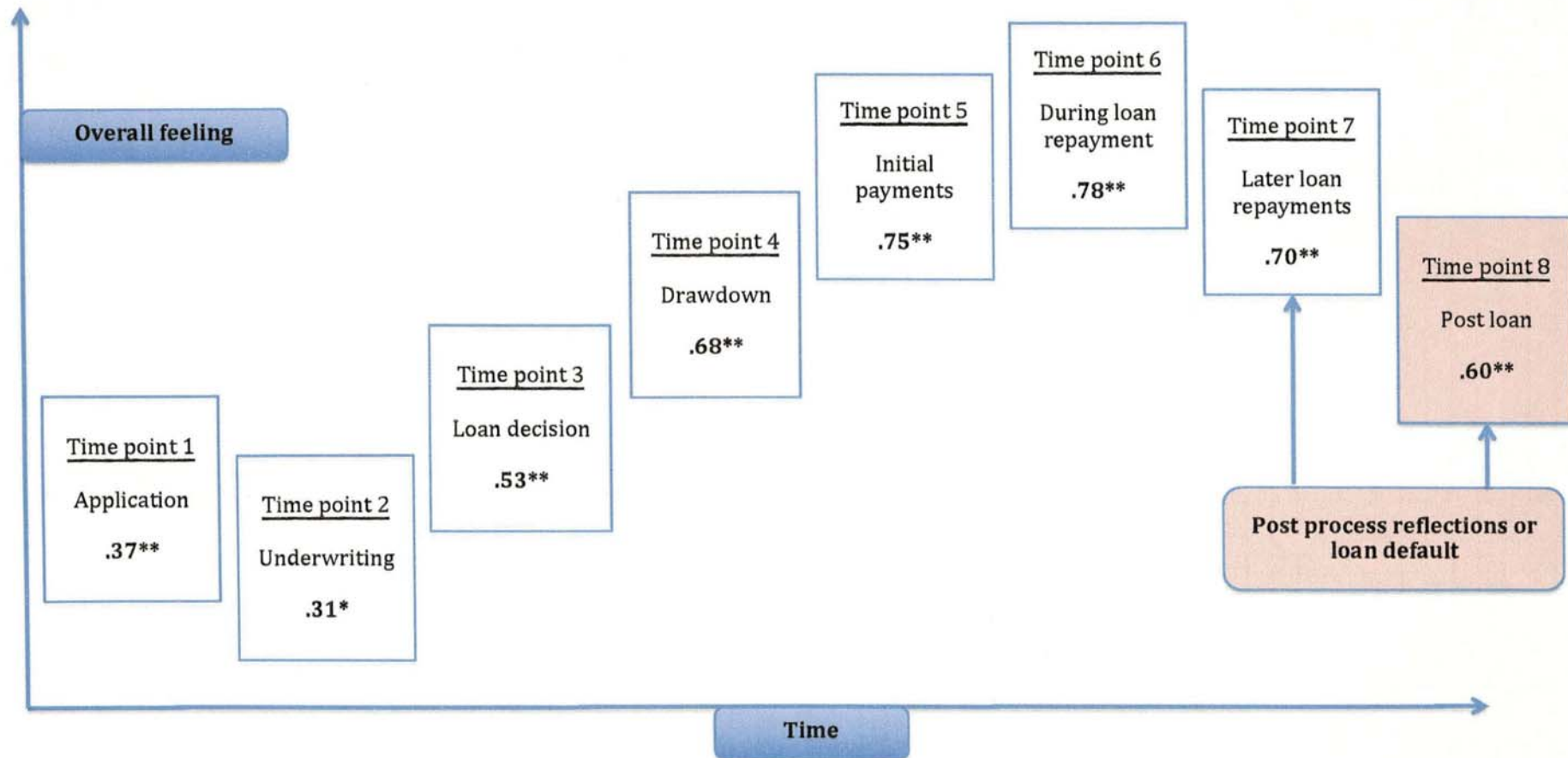
Loan officers have to make a decision based on the best available knowledge at the time of the loan application. As each loan progresses, over time, loan officers develop a greater understanding of that enterprise and business sector. Yet arguably they could also develop biases towards these enterprises. As each loan progresses the CDFI loan officers perception of loan performance increases (Figure 7.6). Additionally, as each loan progresses the CDFI loan officers levels of satisfaction with the loan increases (Figure 7.7). Finally, the cycles of information exchange and accumulation of learning are conceptualised (Figure7.8).

Figure 7.6 CDFI Loan Officer Perceptions of Loan Performance at Time Points One to Seven (n=50)



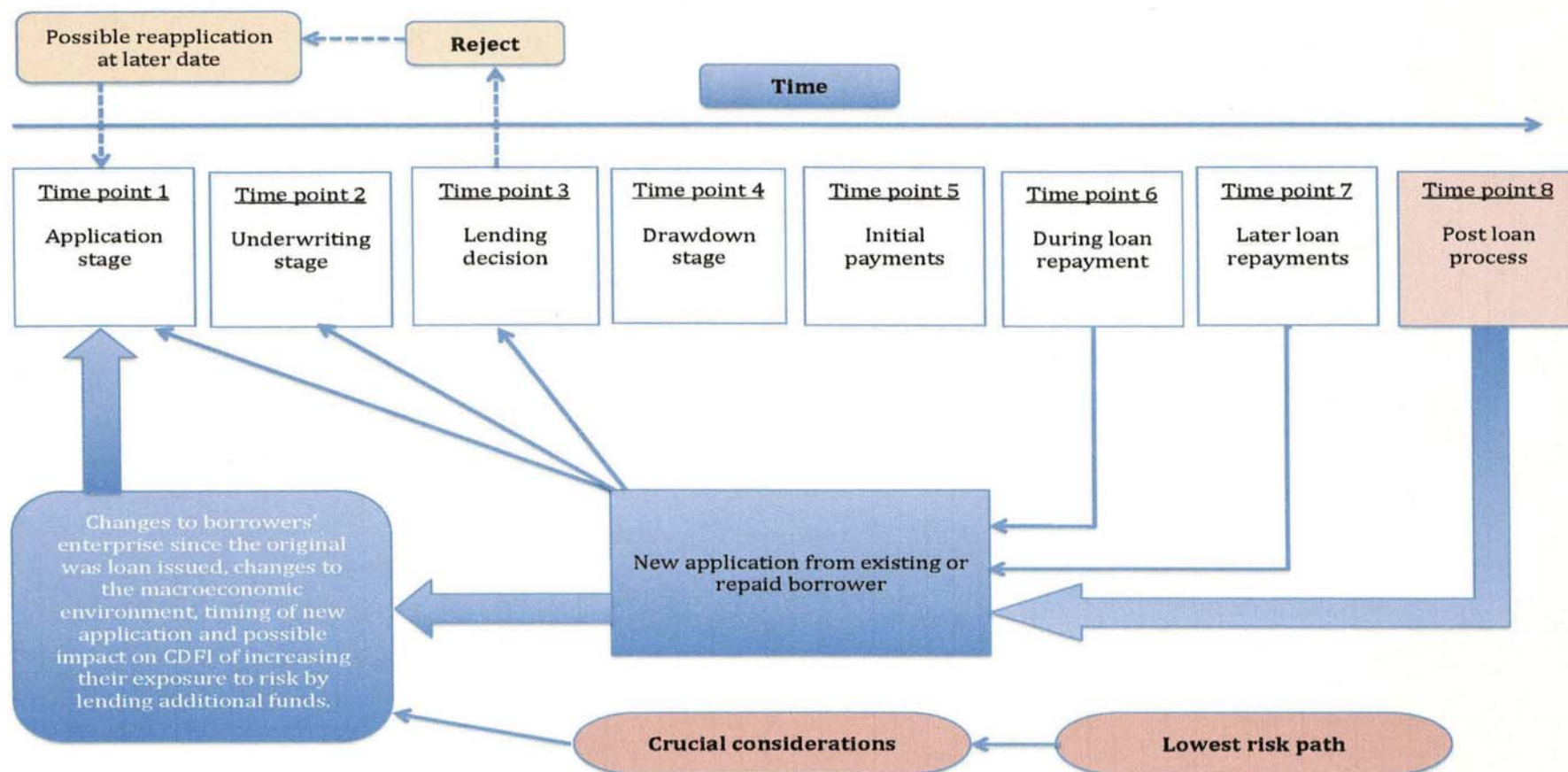
Note. Cross-sectional extrapolation not undertaken in real time; Intercorrelations coded as; 1 = very negative, 2 = negative, 3 = neutral, 4 = positive and 5 = very positive.

Figure 7.7 Loan Officer Overall Feeling about Loan at Different Time Points One to Eight (n=50)



Note. Cross-sectional extrapolation not undertaken in real time; Intercorrelations between loans officers overall feeling about the loan against feelings at different time points. General feeling coded as, 0 = feelings changeable, 1 = positive

Figure 7.8 Accumulation of Information at Seven Time Points, Post Loan Reflections and Cycles of CDFI Lending



7.5.1 Loan Officer Concerns during the Underwriting Process

Understanding relationship lending, the CDFI lending routine process, the characteristics of the loan officers and information asymmetry, leads to an analysis of the concerns that are faced by CDFIs and loan officers during the loan application. Loan officers were asked about the concerns that they had with each of the borrower applications during the application stage. This included providing a list of possible concerns and asking the loan officers to identify which caused the main concerns. The option was also provided to list any additional concerns. Finally, the loan officers were asked to identify which of the concerns was potentially a deal breaker that would prevent the loan from being granted. The loan officer concerns were correlated against three measures of loan performance; loan amount, turnover and monthly repayment (Table 7.2).

Table 7.2 Intercorrelations of Loan Officers Concerns with Borrower Applications: Measures of Business Performance (n=50)

	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9	10	11	12
1. Loan amount	£27,354	£16,281	-											
2. Turnover	£512,444	£880,228	.38**	-										
3. Monthly payment	£4,125	£11,023	.81**	.27	-									
4. Inability to offer security	0.06	0.24	.09	.06	.18	-								
5. Reluctance to offer security	0.06	0.24	.09	.33*	.09	.29*	-							
6. Number of CCJs	0.04	0.20	.05	.05	.14	.57**	-.04	-						
7. Communication difficulty	0.04	0.20	-.30*	-.04	-.02	-.05	-.05	-.03	-					
8. Borrower specific issues	0.20	0.40	.15	.12	.16	-.02	.32*	-.11	.05	-				
9. Poor organisational skills	0.18	0.39	.01	-.13	.08	.54**	.10	.31*	.17	-.15	-			
10. Commitment of partner	0.04	0.20	-.14	.01	.04	-.05	-.05	-.03	-.04	-.16	.17	-		
11. Health of applicant	0.08	0.27	-.10	.14	.07	-.08	.24	-.04	.32*	.38**	-.14	-.06	-	
12. Potential deal breaker	0.22	0.42	-.05	-.09	.25	.48**	.07	.27	.14	.08	.25	.38**	.20	-

Note. Coded as no/yes (0/1); Turnover, loan amount and monthly payment = scale; There is a small difference between loan amount, turnover and monthly payment compared to the correlations in Chapter 6, due to the smaller n size; $p < 0.05$. ** $p < 0.01$.

There are two main loan officer concerns that are potential deal breakers for CDFI loan officers during the application process. These were, the inability of the borrower to offer security (.48**) and the commitment of the borrower's business partners (.38**)

The commitment of borrower's business partners was not correlated with any other variables. The most significant concern related to the inability of borrowers to offer security either against assets or through guarantees. The inability of borrowers to offer security was also significantly correlated to reluctance to offer security (.29*), County Court Judgements (CCJs) (.57**) and the organisational skills of borrowers (.54**). There was a further significant correlation between loan officer concerns with borrowers that are reluctant to offer security and enterprises that have a high turnover (.33*). That the inability of borrowers to be able to offer security is the most significant concern of loan officers, differs from earlier findings by Derban *et al.* (2005) who found that security was not a concern for CDFIs.

The borrower specific issues were significantly correlated to reluctance to offer security (.32*) and the health of the borrower (.38**). The health of borrowers was further significantly correlated to communication issues (.32*). When borrowers with health issues 'go quiet' information asymmetry increases between CDFIs and borrowers and loan officers become more concerned about the viability of the loan proposition. Within the data further details on borrower specific concerns predominantly revolved around the loan officers obtaining additional information relating to security, communication issues and concerns

with business partners. Other examples related to the age of the borrower, the reliance of the small businesses on the borrower, the business location, past behaviours of borrowers, and the flight risk posed by foreign borrowers, which would make recovering a defaulted loan difficult and expensive.

There is an inverse correlation between loan amount and communication issues during the application stage (-.30*). The smaller the loan the more worried loan officers are about communication issues and the larger the loan and enterprise the less worried loan officers are about communication issues. This reflects the knowledge and experience of loan officers who recognise that borrowers running larger businesses are often less contactable due to them managing busy daily schedules. Learning from experience is an impact that occurs as a result of the lending activities of the loan officers. The lending process and loan officer concerns during the underwriting process are all related to them attempting to reduce risk and prevent loan default. These concepts and enterprise failure are explored next.

7.6 Loan Performance: Loan Default and Enterprise Failure

This section explores some of the concepts behind loan default, enterprise failure and loan performance. There are many ways in which a firm can fail and as a consequence firm failure is difficult to define (Cope *et al.* 2004). McGrath (1999:14) argues that there are 'idiosyncratic judgements on what constitutes firm failure.' This has resulted in numerous definitions (Fredland and Morris, 1976). Additionally, the mechanisms of firm failure remain an understudied area

of research (Thornhill and Amit, 2003:497). Within the context of this research, loan default and enterprise failure are two distinctly separate concepts. Loan default is defined as a borrower failing to meet the repayment obligations set out in the loan terms, and enterprise failure is defined as the enterprise ceasing trading.

Some enterprises experience repayment issues, whereby payments are missed and paid late, thus the loan is not repaid according to the initial schedule. For CDFIs enterprises that experience repayment issues raises alarm bells, as they indicate potential cash flow issues that could result in loan default. When a borrower fails to make a repayment, the CDFI will go through a period of activity that attempts to encourage the borrower to meet the repayment schedule. Once three repayments have been missed, the loan is classified as defaulted for accounting purposes, and is written-off by the CDFI. The CDFI will then engage in a process to recover the funds. Recovering the funds can involve rescheduling the terms of the loan, for example by decreasing the monthly payment and increasing the loan term. Alternatively, where it is unlikely that the loan will be repaid, and where some form of collateral is held, CDFIs will take action to recuperate the outstanding debt.

Likewise, enterprise failure does not always result in loan default. There are many reasons why enterprises fail, but in this analysis two types of enterprise failure are identified. The first are enterprises that fail with an outstanding loan and the second are those that fail following the successful repayment of the loan. This can be months or years after the loan was settled. The interviews for this

research highlighted that, for enterprises that fail with outstanding loans there are four possible outcomes for the CDFI. The first is that the CDFI has to attempt to recover loan funds through enforcing payment by guarantors (where held) or through the Courts (if the loan was secured on a property). This can be a time consuming, costly and difficult process for the CDFI. The second outcome is that no security is held and CDFI is forced to completely write off the loan with no hope of ever recovering the money. The third outcome is that the loan is written off by the CDFI whilst the borrower continues to make token payments (although in many cases these token payments will never realistically repay the outstanding capital). The final possible outcome is that the borrower is still willing and able to honour their obligation to repay the loan, and they wind up the firm but still repay their outstanding debts.

Once an enterprise has defaulted, and the loan has been either written off or repaid, borrowers attempt to either continue to try and make the enterprise work, return to the employment market or become unemployed. This can result in them seeking unemployment benefits. A defaulted loan will have produced impacts and some of these will continue after the loan default or enterprise failure.

Of seven borrowers that had defaulted on their loans, two were still trading, with one enterprise supporting just the borrower and the other continuing to employ sixteen people. Another defaulted borrower was attempting to raise finance to make the enterprise work; two indicated that they were inactive but continued to own either IP or equipment. Only two borrowers had completely ceased to

work on their enterprise. A cross-tabulation of the trading enterprises and defaulted loans highlights that within the sample, two defaulted borrowers continue to trade (Table 7.3).

Table 7.3 Breakdown of Trading and Non-trading Enterprises and Defaulted Borrowers

		Enterprise Trading		Total
		No	Yes	
Defaulted	No	2	51	53
	Yes	5	2	7
Total		7	53	60

Loan repayment does not necessarily mean that an enterprise will be successful. A cross-tabulation highlights that within the sample two repaid borrowers are no longer trading (Table 7.4).

Table 7.4 Breakdown of Trading and Non-Trading Enterprises and Repaid Borrowers

		Enterprise Trading		Total
		No	Yes	
Repaid	No	5	40	45
	Yes	2	13	15
Total		7	53	60

From the 15 borrowers interviewed who had repaid their loans, eleven continue to run their enterprises, three have sold their enterprises (either fully or in part) and one enterprise has failed completely. Of the three sold enterprises, one borrower has sold the business to a transnational firm and is now employed by that firm along with the original staff. One borrower has sold a majority stake in their enterprise to a transnational firm and continues to manage the UK operations of that firm²¹. The third borrower sold their business and used the proceeds of the sale to settle their CDFI loan.

Understanding the different types of loan default and enterprise failure, leads to an examination of the reasons why some of the borrowers in this data set defaulted and why some enterprises failed.

The main reasons given for loan default and enterprise failure related to external factors impacting on an enterprises ability to operate. Three borrowers outlined how some of their clients failed to pay invoices. This led to cash flow issues resulting in the liquidation of their enterprise. Sometimes the reason for obtaining the CDFI loan and the subsequent default is the same. When asked about the reason for obtaining the loan one borrower explained:

‘In 2008, five of our clients went out of business which left us £25,000 in debt, so it was about a month and a halves worth of money that we had lost, and we couldn’t afford to pay the wages. It was just all of a sudden we had got no money and the CDFI came along and helped through that hole’ (C14, 11.06.13).

²¹ Case study three, Chapter Five p.200

The same borrower outlined why they later defaulted on the CDFI loan and liquidated the business:

'We grew, then we had another three companies crash on us, so we had some cash flow issues and then finally we had a VAT bill which I phoned them up to ask if we could pay in 3 month instalments and they refused to let us do that then the Bank turned up and said that they had reviewed our overdraft and that they had decided to take it away from us – it was a collision of all sorts of things really. When you are only turning over £25,000 a month, if somebody goes out of business owing you £4,000 and somebody goes out of business owing you £3,500, somebody else goes out of business, it all adds up, and that happened in the January, February and March. Then the Bank came and withdrew the overdraft and there was the VAT [to pay] and anyway it was just horrific' (C14, 11.06.13).

Finally, two further borrowers outlined that a lack of capital finance resulted in them defaulting on the loan. One of these borrowers had obtained CDFI loan finance to fund the development of a new product, with the expectation that other pre-arranged external investors would inject further capital once the product had been developed. The external investors then failed to provide that additional finance to rollout the product. In these cases the CDFI was unable to provide the additional funding due to the amount required exceeding their maximum loan amount. The second borrower in this group had borrowed £25,000 to purchase stock and develop the business. This was below the CDFI maximum loan amount, but the CDFI was unwilling to increase their exposure and lend more, as the borrower explained: 'I needed more [money], £25,000 it is

a lot, but it really isn't when you are buying stock...with minimum quantities involved... and you are using it for a project that is fast moving...the finance that I needed for it just was not enough' (C41, 23.05.13).

One borrower defaulted after running her business for four years. The business model relied on sharing the retail space with other people that were running their own complementary businesses. This helped to cover the rental cost of the of the business premises. In practice this did not always work and the borrower struggled to reach a scale of operation that would sustain the business, as the borrower explained:

I did the best I could with my section, but if they couldn't bring in the clientele, then they couldn't pay [their share of] the rent. A lot of people used me because they wouldn't have had to travel [although] it was still hard to get people in, because [they] were used to travelling. When my son started primary school that's when I changed because obviously I needed to be more flexible and I wouldn't have been able to running a shop that's when I decided to close it down' (C15, 22.05.13).

Finally, one borrower defaulted on their loan due to personal health issues, as he explains:

'I developed a product, which I still own the tooling for, but I haven't been able to do anything about it because of my illness. So basically I ceased trading... I couldn't continue with it. I am actually looking to see whether I can sell it on or sell the idea on' (C23, 12.06.13).

One failed enterprise that managed to repay their loan was the CSO outlined in case study four. Another failed enterprise was unable to make their business profitable, yet managed to sell their business and settle the CDFI loan. This borrower has no further involvement with the enterprise. For the analysis, the enterprise was categorised as a failed enterprise due to it being an unsustainable business.

7.6.1 Tensions within the CDFI Operational Processes

There are a number of tensions that exist within CDFI operational processes. One of these tensions is between the different types of understandings and different motivations between CDFIs and borrowers. Another tension, relates to CDFI funding that is politically generated and the KPIs that are attached to it. CDFIs receive funding with its policy KPIs and use of it in two ways. One is releasing it in a timely manner and the other is generating required impacts. The CDFI has to somehow match those two different sets of priorities together, otherwise it will fail, because the next time it applies for more Government funding the Government will decline to provide further support to the sector.

Another tension relates to CDFIs becoming embedded in relationships with borrowers. If a CDFI has lent money to a borrower and an external shock occurs that could breakdown the enterprise's path-dependent routine, the CDFI might be faced with the option of having to lend additional funds to save their original investment or lose the original investment. This tension adds an additional level of risk, because if CDFIs lend the additional funds, they could lose a larger

amount if the enterprise is unable to overcome the external shock. Borrowers that have had multiple loans should be bankable. Yet, CDFIs consider repeat loans to be less of a risk. This is because the loan officers perceive that they have reduced information asymmetries throughout the course of the relationship with the borrower. Some potentially bankable borrowers find a CDFI easier to deal with than mainstream banks and obtaining multiple loans are more convenient solution to their finance requirements. These borrowers are possibly perceived by the CDFI as a lower lending risk. But there is a tension between lending to bankable borrowers and the CDFI mission of lending to financially excluded people. By lending to lower risk borrowers CDFIs can attempt to balance their loan portfolios. A balanced loan portfolio means that they can subsequently lend to some higher risk propositions. Finally, the impact agenda imposed on CDFIs may be an idiosyncratic routine that produces perverse consequences that are detrimental to the wellbeing of borrowers and the financial sustainability of CDFIs.

The borrower's focus is based around enterprise survival and lifestyle (usually through the business providing them with an income). They have a limited interest in impacts other than how it helps them to obtain a loan. The borrowers become interested in impacts when they are referred to the CDFI and learn about the social missions of CDFIs. During the initial meeting with a loan officer they learn that they will need to demonstrate that they are saving or creating employment. This is reinforced through the collection of impacts by the CDFI during the course of the loan. For borrowers, demonstrating impacts becomes a hurdle that they have to negotiate and potentially is a burden on their own

financial and time resources. One possible exception to this is the CSOs that have a greater understanding of impacts. This is usually because they have experience of accessing, or are trying to access similar funding schemes to CDFIs, that have their own political KPIs attached to them. Repeat borrowers understanding the CDFI mission might be creative about the threats to jobs. Some or all of the jobs might be saved regardless of the CDFI intervention. Are there distortions or economies of evidence because the borrowers are telling the CDFI what it wants to hear about employment, when this employment might have occurred despite the CDFI lending?

7.7 Conclusions

This chapter has explored the relationship between the historical formation of the four West Midland CDFIs, and the ways in which their routine lending process operates, in the context of the impact agenda that is imposed on them by their funders. The CDFI concept adopted by Government in 1999 led to the growth of CDFIs in the UK (NSFNR, 1999 in Appleyard, 2008). In 2002 the CDFA was formed. This was the start of a small but growing sectors attempt to form a community of practice (Wenger, 2008) that would be able to engage with the neoliberal policy agenda coming out of Whitehall relating to the accountability aspect of being required to collect impacts. The formation of the CDFA links to the ideas of embedded isomorphism (DiMaggio and Powell, 1983) and as such is an attempt to professionalise the sector. The chapter illustrates issues with isomorphism which are that it can result in a growing homogenisation of independent and individual CDFIs which in turn reduces their individuality. The

justification for this is that the consultancy reports and subsequent instrumentally driven literatures have focused inwards on the CDFIs and there has been only a limited focus outwards onto borrowers and actual impacts.

A community of practice relates to a community in which information and practice is transferred between organisations and as such includes all organisations connected to a CDFI. For a CDFI this will consist of a variety of stakeholder relationships that interact differently at different times and for different purposes but also collectively in different configurations. For example a CDFI will interact directly with the CDFA but also directly with another CDFI or with a consultant. These different stakeholder relationships can be conceptualised as 'minor-communities of practice' within the overall community of practice that forms the CDFI sector. This adds complexity to the concept of communities of practice. Crucially, different stakeholders that form the community of practice will have different levels of power and different motivations for what they are trying to achieve. They will also have different interpretations of what impact means. This all illustrates that the professionalisation, characteristic of isomorphism, is a complex and idiosyncratic process.

CDFIs are embedded with a wide range of stakeholders, some of which impose impact KPIs and lending constraints upon them that affects their lending process and results in them producing similar impacts. Exploring the lending process of CDFIs identified that there are a series of time points within a loan, each of which provides a different opportunity to exchange information and accumulate

information to inform the construction of loan knowledge. This process of learning helps to reduce information asymmetries between CDFIs and borrowers. As a loan progresses CDFIs develop an enhanced understanding of their borrowers and paradoxically are better placed to assess loan performance.

Chapter Eight outlines the core contributions of the thesis from the analysis of the impacts that are created through the lending activity of the four West Midlands CDFIs.

8 THE IMPACTS OF CDFI LENDING:

SOCIAL, ECONOMIC AND ENVIRONMENTAL IMPLICATIONS

8.1 Alternative Economic Space and CDFIs

The finance gap (Macmillan, 1931) continues to influence decisions made by entrepreneurs who want to establish, sustain and grow their own businesses. CDFIs operate within that gap by providing vital loan finance to entrepreneurs. A CDFI operates in the alternative economic space that can be characterised as the margins of mainstream financial inclusion (Lee, 1999; Fuller and Jonas, 2003; Leyshon and Lee, 2003; Bryson and Buttle, 2005; Buttle, 2005, Appleyard, 2008; Fuller *et al.* 2010) however in many ways they operate like a mainstream institution. They can potentially be categorised as a hybrid financial institution. CDFI lending has restrictions placed upon it that are partly imposed by policy (Affleck and Mellor, 2006) and partly by the social criteria identified by the CDFI (Bryson and Buttle, 2005; Buttle, 2005, Derban *et al.* 2005: Appleyard, 2008; Fuller *et al.* 2010). One constraint placed upon CDFIs is that applicants must demonstrate that they are unable to obtain finance from a mainstream bank. The default risk of lending to borrowers on the margins of financial inclusion is going to be inherently higher than that of borrowers that are bankable. This means that CDFIs require periodic injections of public or third sector funds to cover the costs of defaulting loans. The injection of capital into CDFIs has attached to it a series of KPIs some of which relate to lending constraints and some of which relate to the requirement to create impacts. Another constraint placed upon a CDFI is that state and third sector funders require them to leverage the capital

injections by borrowing from mainstream banks. This borrowing needs to be repaid which causes tension between the CDFIs organisational behaviour and the requirement to create impacts. The mainstream funding that CDFIs access and the way that CDFIs process loans can be considered as broadly mainstream. This thesis proposes that the only thing that makes a CDFI alternative is the impacts agenda imposed upon it and this impact agenda is driven by the constraint that means they are only able to lend to financially marginalised entrepreneurs.

CDFIs need to review their individual mission statements and address the constraints that they place on themselves by attempting to create local jobs for local people. Currently these constraints prevent them from lending to some viable businesses that are experiencing financial exclusion and this prevents the creation of wider impacts in the local economies in which they operate.

If CDFIs became sustainable and no longer required state funding, or if state funding was withdrawn, there is a risk that they would become more mainstream in their lending practices. If CDFIs were to stop lending to those that are excluded from mainstream finance, then they would not only cease to be alternative providers operating in alternative economic spaces but also crucially no longer play a part in helping to tackle financial exclusion and the finance gap.

8.1.1 Economic Multiplier Analysis

Chapter Four explored the principles of economic multiplier analysis (Isserman, 1980; Round, 1983; Richardson, 1985; and McCann and Dewhurst, 1998) and outlined that there are two types of impact for a CDFI. These are characterised as the impacts of CDFIs as an enterprise in its own right and the impacts that arise from borrowers as a result of their lending. As enterprises in their own right CDFIs are producing impacts in local economies through the recruitment of staff and through the local expenditure that supports their main activity of lending to borrowers. This lending results in multiplier impacts created by the borrower enterprises that can extend beyond the local economy. Each of these two types generate their own direct, indirect, induced and dynamic levels of impact.

If a CDFI wanted to explore the full extent of their impact on local communities and economies they would need to explore the impact of their operational activities alongside the impacts created by their borrowers. To achieve this, a CDFI would need to undertake a social impact analysis which also includes an economic multiplier analysis. A social impact differs from an economic multiplier analysis in that it seeks to undertake a review of an enterprise's endeavours in social responsibility. It explores factors such as internal operating procedures, codes of conduct, governance, and ethical performance, employee pay and benefits, working environment, energy use, charitable giving and volunteer activity to evaluate the social and environmental impact of an enterprise, with a view of enhancing operational effectiveness and narrowing the gap between mission statements and reality.

To date, undertaking such an analysis has not been possible as it would have failed to account for the wider additional impacts of CDFI lending. The possible benefits of undertaking such an audit might be that it would enhance a CDFI's understanding of the business practices and economy within which it operates. This could lead to better lending decisions. The difficulty is that undertaking an economic multiplier analysis is expensive and time consuming for a CDFI and the return would not be proportionate to the cost of undertaking such an analysis.

8.1.2 Impact

This thesis has identified the impacts that exist within the loan books of four West Midland CDFIs. It has explored the relationships between impacts and loan performance, (Hulme and Mosely, 1996; Copisarow, 2000) lending practice (Derban et al. 2005) and how they fit with the policy arena (Peck and Tinkle, 2007). The Phoenix Fund resulted in the growth of CDFIs but also resulted in them becoming part of the political economy of neoliberalism, a policy tool that the Government utilises to ensure entrepreneurs are able to obtain loan finance. CDFIs started to measure impacts as part of a state imposed impact audit agenda. The policy aspect of a CDFI explains the complexity of the impact agenda. The conventional measures of jobs or business created or saved are simple and easy to understand by all stakeholders that CDFIs engage with. Conversely, other impacts are more complex to understand. There is a tension between impacts that are reported and those that are perhaps created and additionality (McEldowney, 1997; Lenihan, 2004). It is difficult to know how certain a CDFI can be about the link between a loan and jobs created or saved. These jobs may

have occurred or remained without the CDFI loan. The impact of creating these jobs in the CDFIs area might displace jobs in other areas and there may be a temporal issue to this displacement. It may or may not occur immediately.

CDFIs need to maintain the conventional policy impact measures of jobs created, jobs saved, businesses created, business saved, turnover and leverage, and the additional impact measures of gender and ethnicity required by ERDF; because these are measures required by the funders. Nevertheless, CDFIs need to be aware that the significance of these impacts in demonstrating wider impact on local communities differs. If the policy environment changes and there is a subsequent need for CDFIs to demonstrate wider impacts of their lending they could use the wider impacts identified from this research. This would be more cost-effective than undertaking an economic multiplier analysis. CDFIs through the CDFA could lobby the policy-making community to demonstrate that the wider additional impacts of lending activity go beyond the current impacts currently reported. The collection of wider impacts would have a cost implication on CDFIs and the borrowers that would have to provide the additional information. Likewise, if CDFIs want to demonstrate slightly more depth to the impacts that they report they could incorporate some of the impact measures identified in this research. Wider impacts with the strongest correlations to measures of business and loan performance are borrowers that have major clients, borrowers that are investing in research and development (R&D) borrowers that are innovating and the level of engagement that a borrower has with regional suppliers. These impacts could also be incorporated into any extended economic multiplier analysis for a CDFI.

Ultimately, the success of a CDFI relies on its ability to identify viable lending propositions that have impacts. CDFIs should consider their lending market in relation to the size and duration of the loans that they offer. The emphasis should be on the lending process and in making appropriate lending decisions. This means balancing the financial aspects of a loan against wider social and environmental impacts. A key issue for CDFIs is the need to have a balanced loan portfolio with a combination of both high and low risk loans. An unbalanced loan portfolio that has too many high risk loans will result in not only substantial defaults by borrowers, but increased risk to the CDFIs own sustainability. The viability of a loan is the critical determinant in the CDFI lending process; a lending process that is driven by impacts may result in increased levels of defaults and the creations of negative impacts. It is important to appreciate that impacts that result from a CDFI lending process can be negative and positive. Currently the emphasis has been on the identification of positive impacts whilst negative impacts remain invisible.

8.1.3 Embedded Isomorphism and CDFIs

There are positive and negative impacts created by CDFI lending activity. Within a CDFI loan portfolio there are loans that should not be issued as they can raise expectations in the minds of the borrowers that the borrowers will not be able to meet and this can result in bankruptcy. This does not mean that CDFIs actively seek out unsuitable borrowers; instead, the routine process here results due to the market within which CDFIs operate. The routine process of lending to borrowers is influenced by embedded isomorphism (DiMaggio and Powell, 1983;

Tuttle and Dillard, 2007). Embedded isomorphism is found within CDFIs operational procedures which are influenced by different stakeholders and the creation of a CDFI communities of practice (Wenger, 2008) as well as by some of the organisational behaviours that occur as a result of different internal and external pressures.

Currently, the lending process is based on an unequal exchange of information between borrowers and lenders. Addressing this unfair and unequal exchange is essential to the survival of a CDFI, but is also fundamental to ensure that a CDFI tries to reconcile the finance gap in an appropriate manner. If a CDFI removes too much risk from its loan portfolio, it risks becoming more like a mainstream bank and less like a socially orientated enterprise embedded in its local community and economy. The difficulty for CDFIs is to identify viable businesses that create the impacts that they and the policy funders consider to be important. As enterprises that are active within local economies CDFIs must search for suitable potential borrowers by engaging with local communities and via marketing and PR activity.

The CDFI lending process is an exercise in information capture to make an informed lending decision. Nevertheless, the difficulty is that information asymmetry occurs in this process and it is possible to conceptualise the lending process as one that is in tension between lenders which are trying to obtain appropriate information from potential borrowers. There is a paradox to the embedded isomorphism that occurs within CDFIs. On the one hand, it creates pressures that result in them acting in a homogenous way (through an attempt

to professionalise the sector in response to the neoliberal political economy) to create impacts. Whilst, on the other hand, it helps to ease some of the tensions that occur through the information asymmetry (Stiglitz and Weiss, 1981; Lean and Tucker, 2001; Altman, 1968) that exists between borrowers and lenders during the different time points of the loan cycle. Because CDFIs are embedded in local communities they have local information which they can draw on during the lending process. This helps them to overcome some of the difficulty related to the information capture that occurs over the seven time points of information exchange. This fits with the definition of relationship lending used in this thesis, outlined by Boot (2000:10) as ‘the provision of financial services by a financial intermediary that engages in multiple interactions with the respective borrowers and over time obtains proprietary information on borrowers.’

CDFIs are able to absorb defaults due to the policy funding that they receive. It could be argued that when a loan defaults the lenders understanding (in relation to the types of business, local economy) increases and this enables them to make better underwriting decisions in the future. An alternate outcome to this might be that rather than ‘sharpening’ up a lenders ability to underwrite loans to similar lending proposition in the future, that the lender is more cautious and rejects viable lending propositions. The lending process should be based, not only on the viability of the business proposition, but also on the potential impact of the loan on the individual.

8.1.4 Information Exchange and Accumulated Knowledge

One of the contributions of this PhD is the identification of the seven different time points of information exchange followed by a further time point which is the post process reflections that occur within the loan making cycle. The accumulation of knowledge starts during the initial application process and continues throughout the course of the loan event. At the start of a loan, a CDFI has to weigh risk based on a limited amount of vicarious information. Paradoxically, as a loan progresses a loan officer's understanding of the deal and their ability to assess the viability of the lending increases. This reflects an accumulation of information that occurs during the lending transaction.

The perception is that there are cycles of learning that can occur within the lending process every time a borrower applies for a new loan. There is a danger here if a CDFI assumes that it has a full understanding of a repeat borrower's enterprise and finance needs, due to the experiential learning acquired from the previous loan. Learning during the lending process is periodic and a CDFI has to start the learning cycle again and repeat the process of information and knowledge capture. The current process of obtaining information is a difficult and imperfect process, itself a synonym for relationship lending, but it is partly eased by embedded isomorphism. One of the issues central to embedded isomorphism and the lending cycles is that impact is interwoven throughout the application stages and continues during the full term of the loan. Understanding that embedded isomorphism occurs between CDFIs, and that CDFIs acquire information at several different time points which results in an accumulation of knowledge that they can draw upon, means that there is the potential for CDFIs

to develop an enhanced understanding of loan performance. Mainstream banks build a knowledge base for future performance from their client data that they are able to draw upon which reduces their exposure to risk.

CDFIs could consider pooling their data at a higher level into a collective database. This would provide a resource tool for them to draw upon when considering risk and exposure during the application and underwriting process of a new loan event and subsequent loan cycles from repeat borrowers. Pooling and using data in this way would lead to further isomorphism of the sector but it would also help to professionalise the sector. If lending was enhanced, this might enable CDFIs to develop and grow to a size where they become sustainable and free from the constraints of the policy environment. This would enable them to lend according to their own missions and social values. The danger here is if that occurred their missions might change and they might become less alternative.

8.2 Future Research

The time points identified in this thesis from an analysis of CDFI lending activity provides the basis for a new way of conceptualising how organisations learn about their core clients, through ongoing exchanges of information and the accumulation of information from many different types of exchange. The notion of accumulated knowledge at different time points is applicable to a wider setting than the CDFI lending process. It could be applied to any organisation where value judgements are made as part of an application process or process of determining risk. Examples might include: financial organisations, public

schools, university medical schools or recruitment. Future research should be undertaken into the concept of learning time points and moments of information exchange and accumulation of knowledge that occurs within organisations. The cross-sectional design of this research perhaps limits the claims made in relation to the time points of information exchange and accumulation of knowledge. The moments could be explored by undertaking longitudinal studies using this to fully explore the time points and develop a more nuanced understanding. Research could explore the different types of information accumulated by different organisations, whether it is a formal or informal process, how information is weighed, and whether there are opportunities to symbolise and code the experiential information in a way that enables organisations to learn from the vicarious information in the future. Different organisations will have a different number of time points and their own routines which could be explored.

8.3 Concluding Thoughts

The empirical contribution of this thesis is significant. Whilst there have been a number of consultancy reports relating to CDFI impacts, this research is the first PhD length study that has explored the CDFI loan files, conducted borrower interviews and loan officer questionnaires to develop an understanding of lending impacts. The thesis makes a contribution to our theoretical understanding in economic geography and social science. CDFIs provide local loans to local enterprises and are inherently geographical and temporal in nature. Developing our knowledge of how enterprises access finance enhances understanding of local economic spaces and business management. Exploring

how CDFI loan finance impacts on the lives of borrowers, their staff and families along with the communities in which they live and work, enhances our understanding of how CDFIs fit within the social sciences.

CDFIs are flexible and dynamic organisations, skilled in accessing public and private funds, adapting to changing markets, gauging risk, striving for sustainability and growth and collaborating with other CDFIs. The CDFI sector is still often referred to and considered a new sector, though this is perhaps disingenuous. ART for example has been operating for 17 years. I have enjoyed my time working with the CDFI case partners and consider that the research process has been a positive experience. CDFIs are fascinating organisations that exist in a highly competitive and often uncertain world. They operate with a commendable set of social values and help to contribute in a small but vital way in tackling the finance gap experienced by those outside and on the fringes of the mainstream finance marketplace. It is the individual stories of those financially marginalised enterprises and entrepreneurs that make CDFIs so interesting.

9 APPENDICES

Appendix 9.1: UK CDFIs 2013

- 1 Acorn Fund
- 2 Adage Credit
- 3 ART (Aston Reinvestment Trust)
- 4 Bees Knees
- 5 Big Issue Invest
- 6 BCRS (Black Country Reinvestment Society)
- 7 Bristol Enterprise Development Fund (BEDF)
- 8 Business Enterprise Fund
- 9 Business Finance North West
- 10 Business Finance Solutions
- 11 Capitalise Business Support
- 12 Charity Bank
- 13 Co-operative and Community Finance
- 14 Coalfields Regeneration Trust
- 15 Community Land and Finance, Community Interest Company (CLF CIC)
- 16 Coventry and Warwickshire Reinvestment Trust
- 17 Donbac
- 18 DSL Business Finance
- 19 East London Small Business Centre
- 20 Enterprise Answers
- 21 Enterprise Loans East Midlands (ELEM)

- 22 Enterprise Northern Ireland (ENI)
- 23 Entrust
- 24 EV Business Loans
- 25 Fair Finance
- 26 Five Lamps
- 27 Foundation East
- 28 Fredericks Foundation
- 29 GLE oneLondon
- 30 Goole Development Trust
- 31 HBV Enterprise
- 32 Impetus
- 33 Innovative Finance
- 34 Isle of Wight Lottery
- 35 Lancashire Community Finance
- 36 London Rebuilding Society
- 37 MCF Loans
- 38 Moneyline Yorkshire
- 39 MSIF
- 40 My Home Finance
- 41 North London Community Finance (NLCF)
- 42 Parity Trust
- 43 Robert Owen Community Banking Fund
- 44 Scotcash
- 45 Sirius

- 46 Social Investment Scotland
- 47 South West Investment Group (SWIG)
- 48 Spirit of Enterprise
- 49 The Key Fund
- 50 Triodos Bank
- 51 TSELF
- 52 Ulster Community Investment Trust (UCIT)
- 53 Wessex Resolutions C.I.C
- 54 West Yorkshire Enterprise Agency

Appendix 9.2: Schedule of CEO Meetings and Loan Officer Questionnaires

No.	Code	Position	Context	Date
1	CE01	CEO	Scoping	09.05.11
2	CE02	CEO	Scoping	16.05.11
3	CE03	CEO	Scoping	17.05.11
4	CE04	CEO	Scoping	18.05.11
5	GM1	CEO	Scoping	12.06.11
6	CE01	CEO	Operations	30.07.11
7	CE02	CEO	Operations	13.09.11
8	FG1	CEO + LOs	Focus group	13.12.11
9	FG2	CEO + LOs	Focus group	12.01.12
10	FG3	CEO + LOs	Focus group	24.01.12
11	CE04	CEO	Operations	19.06.12
12	CE03	CEO	Operations	18.01.13
13 ²²	L01	Lending officer	Questionnaires	09.07.13
14	L02	Lending officer	Questionnaires	15.08.13
15	L03	Lending officer	Questionnaires	29.08.13
16	L04	Lending officer	Questionnaires	11.09.13
17	L01	Lending officer	Questionnaires	11.09.13
18	L05	Lending officer	Questionnaires	16.09.13
19	L01	Lending officer	Questionnaires	26.09.13

²² Loan officers (L01, L03, L04) preferred to review each client case and undertake the questionnaire in person, whilst (L02 & L05) preferred to completed the questionnaires in their own time and the meetings were to briefly review each case and answer any queries that they or I had.

Appendix 9.3: Schedule of Borrower Interviews

No.	Code	CDFI	Loan status	Date	Medium	Time
1	C25	ART	Ongoing	03.03.13	Tel.	28
2	C26	ART	Ongoing	04.03.13	F-2-F	28
3	C35	ART	Repaid	04.03.13	Tel.	46
4	C10	ART	Ongoing	05.03.13	Tel.	29
5	C3	ART	Repaid	05.03.13	Tel.	24
6	C18	ART	Defaulted	06.03.13	Tel.	29
7	C20	Impetus	Ongoing	06.03.13	Tel.	13
8	C36	ART	Ongoing	06.03.13	Tel.	13
9	C40	Impetus	Repaid	06.03.13	Tel.	37
10	C21	ART	Ongoing	07.03.13	Tel.	21
11	C44	BCRS	Ongoing	07.03.13	Tel.	24
12	C47	Impetus	Repaid	07.03.13	Tel.	24
13	C13	BCRS	Ongoing	11.03.13	Tel.	28
14	C42	BCRS	Ongoing	11.03.13	Tel.	18
15	C2	ART	Ongoing	12.03.13	Tel.	18
16	C37	ART	Ongoing	14.03.13	Tel.	34
17	C34	BCRS	Ongoing	15.03.13	Tel.	17
18	C12	Impetus	Ongoing	19.03.13	Tel.	19
19	C30	Impetus	Ongoing	22.03.13	Tel.	49
20	C48	Impetus	Ongoing	26.03.13	Tel.	111
21	C6	Impetus	Ongoing	27.03.13	Tel.	34

No.	Code	CDFI	Loan status	Date	Medium	Time
22	C7	Impetus	Repaid	27.03.13	Tel.	18
23	C31	Impetus	Ongoing	28.03.13	Tel.	54
24	C19	Impetus	Repaid	03.04.13	Tel.	29
25	C4	Impetus	Ongoing	06.05.13	F-2-F	60
26	C15	BCRS	Defaulted	22.05.13	Tel.	32
27	C17	BCRS	Ongoing	23.05.13	Tel.	20
28	C41	BCRS	Defaulted	23.05.13	Tel.	25
29	C55	Impetus	Ongoing	24.05.13	Tel.	27
30	C24	BCRS	Repaid	03.06.13	Tel.	23
31	C60	ART	Ongoing	05.06.13	Tel.	40
32	C43	ART	Repaid	06.06.13	Tel.	47
33	C52	ART	Ongoing	07.06.13	Tel.	17
34	C56	ART	Ongoing	07.06.13	Tel.	32
35	C11	ART	Ongoing	10.06.13	Tel.	15
36	C58	ART	Defaulted	10.06.13	Tel.	30
37	C14	Impetus	Defaulted	11.06.13	Tel.	15
38	C29	Impetus	Repaid	11.06.13	Tel.	34
39	C53	Impetus	Ongoing	11.06.13	Tel.	21
40	C22	CWRT	Defaulted	12.06.13	Tel.	17
41	C23	ART	Defaulted	12.06.13	Tel.	20
42	C28	ART	Ongoing	12.06.13	Tel.	23
43	C50	CWRT	Repaid	13.06.13	Tel.	26

No.	Code	CDFI	Loan status	Date	Medium	Time
44	C8	ART	Repaid	14.06.13	Tel.	32
45	C59	CWRT	Ongoing	17.06.13	Tel.	16
46	C39	ART	Repaid	18.06.13	Tel.	24
47	C46	CWRT	Ongoing	18.06.13	Tel.	27
48	C27	CWRT	Repaid	20.06.13	F-2-F ²³	45
49	C38	CWRT	Ongoing	20.06.13	Tel.	22
50	C51	CWRT	Ongoing	24.06.13	Tel.	31
51	C49	CWRT	Ongoing	27.06.13	F-2-F	68
52	C16	CWRT	Ongoing	05.07.13	Tel.	13
53	C9	Impetus	Ongoing	04.08.13	Tel.	32
54	C33	Impetus	Repaid	05.08.13	Tel.	23
55	C1	ART	Repaid	06.08.13	Tel.	32
56	C5	CWRT	Ongoing	06.08.13	Tel.	20
57	C54	Impetus	Repaid	07.08.13	F-2-F	41
58	C45	Impetus	Ongoing	08.08.13	Tel.	32
59	C57	Impetus	Ongoing	09.08.13	Tel.	32
60	C32	ART	Ongoing	15.08.13	F-2-F	48

Note. Schedule of borrowers ordered by date interview completed and categorised into ongoing, repaid and defaulted.

²³ Finance director present by request of borrower

Appendix 9.4: Semi-structured Borrower Interview Schedule

(Tailor these questions based on background of the individual / firm. Also, based on whether the loan is ongoing, has been repaid or has defaulted.)

1: Please can you tell me about your background and how you have come to be involved in this business?

(What was your former post? Was it redundancy? Did leaving create vacancy? Have you taken a reduction in income to start your own business? Skills, expertise, clients, did they come from a similar business). Is this their first business? Are they involved in more than one business?

2: What does your business do?

(What is the aim of your business? Can you tell me about your clients? Do you have a major client?) Have there been any major developments in the business over the last 3 years (time depends on the company)

3: What sort of purchases does your organisation makes from suppliers?

(What is the percentage of these purchases from firms within 10 miles, within the West Midlands, within the UK or from overseas? Do you have a major supplier?)

4: The project is exploring access to finance and how firms access external finance. Can you tell me about this firm's experience of accessing external finance? (Why – what was the need for the finance – When did this occur– why did banks reject your application – what other sources of funding did you consider or use)

5: How were you introduced to (ART / BCRS/ Impetus)?

6: What was the sequence of events that led to your loan from (ART/BCRS/Impetus)?

7: What did the loan enable you/the firm to achieve?

(How has the loan either positively or negatively impacted on your business?)

8: Can you tell me a little bit about the people involved in the firm?

(Do any of your family members have an involvement with the firm?)

9: The CDFI [NAME] lends to achieve a set of social objectives and outcomes. Can you tell me about the social impacts that come from your loan (jobs created, saved, etc.)?

(Did you feel under pressure to employ those people to be a successful applicant? Or if other measures such as saving jobs was part of your application?)

10: Did the loan result in you providing any education to new or existing staff?

If so please can you provide me with details of it? (Have you provided any apprenticeships, internships, mentoring schemes, unpaid work or learning schemes?)

11: How important was the loan for your business? (Do you think that without the loan your business would still be trading or that it would have got off the ground?)

12: What impact has the CDFI loan had on you, your family and your home life? (I would like to explore the impacts of the loan on you and your family in more detail. Since either starting your business or receiving the loan, have you taken a reduced income? (If so, what was the reason for this?) Have you spent longer hours away from home than you did in your previous role? How did this impact on you and your family? (Has this changed because of the loan?) Have family members helped you by undertaking unpaid or minimally paid work such as admin, typing, packing products or delivering fliers etc.?)

13: Has the CDFI loan allowed you to access finance from the mainstream banks?

14: Do you live and work within the same community? (How far do you travel to work?)

15: Have you had any involvement in helping other organisations or individuals to improve their business or to obtain finance?
(Looking for traded and untraded impacts (traded impacts = money involved / untraded impacts = no money involved) networking, events, etc.) Have you referred anyone to ART?

16: On a scale of 1-10 (1 being not happy at all and 10 being completely happy) how happy were you with the CDFI loan?

17: On a scale of 1-10 (1 being not happy at all and 10 being completely happy) how happy were you with the CDFI application process?

18. On a scale of 1-10 (with 1 being at the lower end of the scale and 10 being the highest end you can imagine), how entrepreneurial would you say you are?

19. Do you have any other issues relating to impacts of the loan that you would like to raise?

20. Finally, thank you for your time. Do you have any questions that you would like to ask me about this interview?

Appendix 9.5: Lending Officer Background Information

Name_____

Position_____

CDFI_____

Time at CDFI_____

CDFI lending experience (years) _____

Bank lending experience (years)_____

Total lending experience _____

Education (highest level) _____

Age range _____

Gender_____

Commute to work distance _____

Reason for working in this sector _____

Appendix 9.6: CDFI Lending Officer Questionnaire with SPSS Coding

CDFI Lending Officer Questionnaire

CDFI: ART/BCRS/IMPETUS

Client / Organisation: _____

Borrower name: _____

Position: _____

Interview Date: _____

CDFIQ1. In one or two sentences, can you tell me about your experience of dealing with this company?

CDFIQ2a. Was there any repeat business with this client?

- ☐ Yes
☐ No (if no, move to Q3)

CDFIQ2b. How many loans have been made?

CDFIQ2c. Were the previous loans paid off prior to new loan being made?

- ☐ Yes
☐ No

CDFIQ2d. (Please provide details if not a straightforward case)

CDFIQ3. How was this client introduced to you?

- ☐ Bank referral
☐ Intermediary referral

- ☐ Agency
- ☐ Clients own website research
- ☐ Advert
- ☐ Friend referral
- ☐ Known by CDFI staff member
- ☐ Other CDFI referral
- ☐ Networking event

(Please describe)_____

-

4. Please see SHEET A.

- ☐ Tick when completed

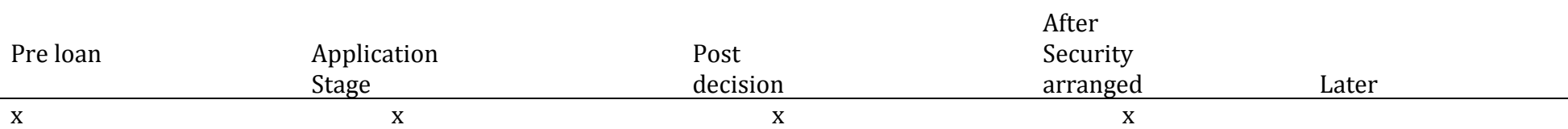
SHEET A.

4.a. What was the sequence of events that led to this / these loan(s)?

Sequence of events

Pre loan	During Application	Post decision	Post Loan
(Any pre application contact, meetings etc.)	Number of meetings	(Contact during the term of the loan)	Any follow on contact post loan

4.b. Please illustrate the drawdown of the loan on the below timeline?



5. Which of the following categories was the loan used for?

CDFIQ5a Number of categories ticked/mentioned _____

- CDFIQ5a1** ☐ Working Capital (cash flow /business development)
CDFIQ5a2 ☐ Capital investment (Purchase of machinery, stock, other assets)
CDFIQ5a3 ☐ Business development investment (services /professional fees etc.)
CDFIQ5a4 ☐ Pay staff (salaries)
CDFIQ5a5 ☐ Reduce or clear existing debts (Overdrafts / credit cards / invoices)
CDFIQ5a6 ☐ Recruitment
CDFIQ5a7 ☐ Staff training

CDFIQ5b Other (Please describe)

6. Were there any of these 'issues' present during the application process?
(Please rank in order of importance)

CDFIQ6a Number of categories ticked/mentioned _____

- CDFIQ6a1** ☐ Security
CDFIQ6a2 ☐ CCJs
CDFIQ6a3 ☐ Communication issues
CDFIQ6a4 ☐ Reluctance of borrower to offer security
CDFIQ6a5 ☐ Difficulty in seeing supporting evidence i.e. lease documentation (please detail)
CDFIQ6a6 ☐ Inability of borrower to offer security
CDFIQ6a7 ☐

CDFIQ6b Please detail any other issues during the loan process?

7a. Did you have any concerns during the underwriting process?

CDFIQ7a Number of categories ticked/mentioned _____

- CDFIQ7a1** ☐ Organisational skills of applicant
CDFIQ7a2 ☐ Commitment of applicant
CDFIQ7a3 ☐ Commitment of partner
CDFIQ7a4 ☐ Health of applicant

- CDFIQ7a5 ☐ Security
- CDFIQ7a6 ☐ CCJs
- CDFIQ7a7 ☐ Communication issues
- CDFIQ7a8 ☐ Reluctance of borrower to offer security
- CDFIQ7a9 ☐ Difficulty in seeing supporting evidence i.e. lease documentation (please detail)
- CDFIQ7a10 ☐ Inability of borrower to offer security
- CDFIQ7a11 Other concern mentioned

CDFIQ7b. If not mentioned above, what were they?

7.c. Which of these concerns was potentially a deal changer and how was it overcome?

CDFIQ7c Did they indicate if it was a deal changer: Yes/No

CDFIQ7c1 How was it overcome?

7.d. Have these concerns changed since funding?

CDFIQ7d Have these concerns changed since funding Yes/No

CDFIQ7d1 Details of the changes in concerns

CDFIQ7d2 How have the concerns changed

CDFIQ8a. Which SIC sector do you believe this organisation falls under?

- ☐ Agriculture, Forestry and Fishing
- ☐ Mining and quarrying
- ☐ Manufacturing
- ☐ Electricity, gas, steam and air conditioning supply

- ☐ Water supply, sewerage, waste management and remediation activities
- ☐ Construction
- ☐ Wholesale and retail trade; repair of motor vehicles and motorcycles
- ☐ Transportation and storage
- ☐ Accommodation and food service activities
- ☐ Information and communication
- ☐ Financial and insurance activities
- ☐ Real estate activities
- ☐ Professional, scientific and technical activities
- ☐ Administrative and support service activities
- ☐ Public administration and defence; compulsory social security
- ☐ Education
- ☐ Human health and social work activities
- ☐ Arts entertainment and recreation
- ☐ Other service activities
- ☐ Activities of households as employers; undifferentiated goods & services producing activities for own use
- ☐ Activities of extraterritorial organisations and bodies

CDFIQ8b. Was this organisation in a sector that you had dealt with before?

- ☐ Yes
- ☐ No

8c. How did this alter your underwriting process?

CDFIQ8c Did it alter underwriting Yes/No

CDFIQ8d Details of how it altered underwriting

CDFIQ9a. Did you provide the client with any formal or informal advice during the application process?

- ☐ Yes formal
- ☐ Yes informal
- ☐ No

CDFIQ9b If so, please describe

CDFIQ10. Why was this loan granted? (Maximum two sentences)

11.a. What were the impacts that you considered when doing the loan?

CDFIQ11a Number ticked

- CDFIQ11a1** ☐ Jobs created
CDFIQ11a2 ☐ Jobs saved
CDFIQ11a3 ☐ Businesses saved
CDFIQ11a4 ☐ Business created
CDFIQ11a5 ☐ Gender (female-led business)
CDFIQ11a6 ☐ BAME led business
CDFIQ11a7 ☐ Age of borrower
CDFIQ11a8 ☐ Educational impacts on borrower / staff
CDFIQ11a9 ☐ Potential for business growth
CDFIQ11a10 ☐ Environmental (if so in what way) green company/ impact on community

None detailed so not coded Other (please describe?)

11b. Please see SHEET B.

☐ Tick when completed

SHEET B.

11.b. Please list all the impacts that you believe might have come from this loan and rank the top 5 in order of importance (include other if applicable)

Tick	Rank top 5	SHEET B
		Jobs created
		Jobs saved
		Businesses created
		Businesses saved
		Turnover change
		Gender
		Ethnicity
		Wellbeing / health
		Education / skills attained
		Confidence
		Family
		Credit history
		Income / standard of living
		Cash flow
		Success of enterprise
		Gearing
		Changes in Bank support
		Leveraged funds
		Employment opportunities
		Regeneration
		Untraded impacts
		Multipliers impacts on community (businesses, charitable works)
		Suppliers supported by enterprise, local, regional, national, overseas
		Service offered by enterprise to community
		Repayment – success or failure of loan
		Referrals to CDFI
		Education of CDFI
		Sectors supported
		Savings to benefit spend
		Satisfaction of borrower / CDFI
		Entrepreneurialism
		Wealth creation individual / nationally through exports
		Delivery of loan – speed of application
		Narratives of CDFI/Client
		Relationship between borrower / CDFI
		Age of borrower
		Other (from Q11.a.)

CDFIQ11b Number of impacts ticked from sheet _____

12. How did the presence or absence of these impacts affect the decision making process for this loan?

CDFIQ12a Yes/No

CDFIQ12b How did they affect the decision making process

CDFIQ13. How are impacts weighted when underwriting the file?

CDFIQ14a. Did you like the applicant?

☐ Yes
☐ No

CDFIQ14b (Please provide details) _____

CDFIQ15a. Was the borrower known to you prior to the loan application?

☐ Yes
☐ No

CDFIQ15b (Please provide details if yes) _____

CDFIQ16a. Was there any mission drift in this loan? (Mission drift being defined as lending outside the CDFIs core mission statement)

☐ Yes
☐ No

CDFIQ16b (Please describe)

17. Did you learn anything from doing this loan?

CDFIQ17a Yes/No

CDFIQ17b Details

18. What did you learn from doing this loan?

CDFIQ18a Yes/No

CDFIQ18b Details

CDFIQ19. How was the interest rate calculated for this applicant?

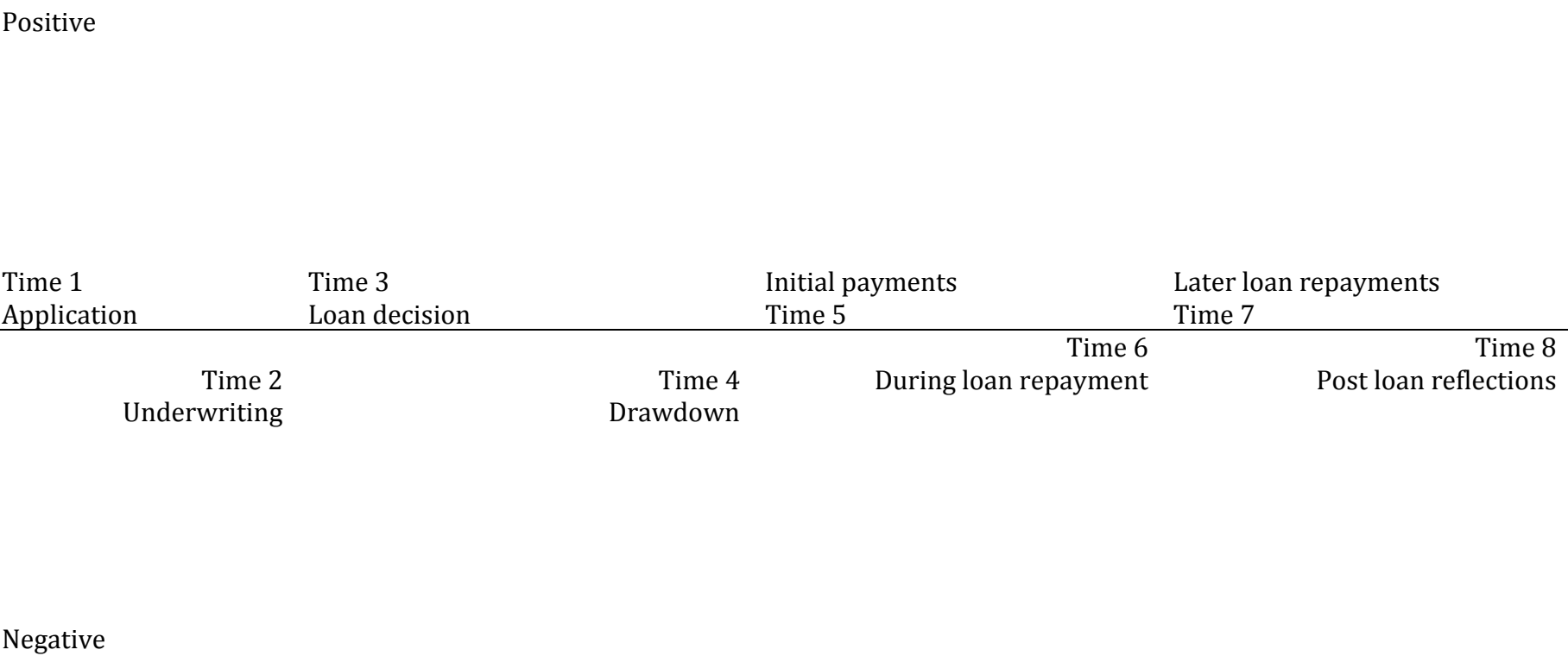
CDFIQ20. What process do you (the CDFI) have for gathering additional impacts that this loan has produced since the initial application?

21. Please see SHEET C.

☐ Tick when completed

SHEET C.

21. Please indicate how you feel about the loan experience with this client, linked to time?



CDFIQ22a. Have you learnt of any further impacts relating to this client since the loan (started/was repaid)?

☐ Yes

☐ No

CDFIQ22b (If yes, please detail)

CDFIQ23. Researcher optional, client specific questions here:

CDFIQ24. Is there anything else regarding this loan that you think might be relevant to my research?

Appendix 9.7: Tiers of Impact: Linked Questions and Coding

Tiers	Impact	How impact questions linked to coding	How coded
Tier 1 impacts	1.Jobs created	How many new jobs were created by enterprise?	Scale
	2.Jobs saved	How many jobs were saved by the CDFI loan intervention?	Scale
	3.Business created	Did the loan enable the business to start?	No/Yes
	4.Business saved	Did the loan enable the business to survive?	No/Yes
	5.Funds leveraged	Was there leveraged finance at the time of the CDFI loan?	No/Yes
	6.Turnover	What was the turnover of the business?	Scale
Measures of business performance	7.Loan amount	How much was the loan for?	Scale
	8.Loan duration	What was the term of the loan (in months)?	Scale
	9.Monthly payment	What was the monthly payment?	Scale
	10.Loan performance	Was the loan ongoing?	No/Yes
Tier 2 impacts	11.Growth achieved	Was growth achieved?	No/Yes
	12.Gender	Was the borrower female?	No/Yes
	13.Ethnicity	Was the borrower from an ethnic minority?	No/Yes
	14.Age	How old was the borrower?	Scale
	15.Community impact	Are there positive community impacts?	No/Yes
	16.Green product	Are there green impacts from the enterprise activities?	No/Yes
	17.Manufacturing	Was the sector manufacturing?	No/Yes
	18.Service	Was the sector service?	No/Yes
	19.Security on asset	Is the loan secured against assets?	No/Yes

Tiers	Impact	How impact questions linked to coding	How coded
Tier 3 impacts	20.Exporting	Does enterprise sell overseas?	No/Yes
	21.Major clients	Are there major clients?	No/Yes
	22.Capital investment	Were the funds used for R&D?	No/Yes
	23.Procurement	Has the borrower purchased other businesses?	No/Yes
	24.Currently trading	Is the business currently trading?	No/Yes
	25.Business sold	Has the business been sold?	No/Yes
	26.Changes in strategy	Did the business change strategy	No/Yes
	27.Alternatives used	How many sources of finance were used?	Scale
	28.Bankability	Has access to mainstream banks improved?	No/Yes
	29.Income	Does the borrower draw an income?	No/Yes
	30.Sweat wage	Has the borrower taken a reduction in income?	No/Yes
	31.Family	Are any family members involved?	No/Yes
	32.Unpaid family	Are family members paid?	No/Yes
	33.Wellbeing	Did stress reduce?	No/Yes
	34.Positive impact	Was there a positive impact on the borrower?	No/Yes
	35.Importance	Was there a strong expression on importance of the loan?	No/Yes
	36.Entrepreneurialism	Scale question (1-10)	Scale
	37.Commute	What is the length of borrower commute?	Scale
	38.Location	Where is the enterprise located?	Scale
	39.UK suppliers	Are suppliers from the UK?	No/Yes
	40.Regional suppliers	Are suppliers from the region?	No/Yes

Tiers	Impact	How impact questions linked to coding	How coded
Tier 3 impacts	41.Global suppliers	Are suppliers from global sources?	No/Yes
	42.Product innovation	Was there innovation of new product?	No/Yes
	43.Patents	Are there any patents on products?	No/Yes
	44.Basic training	Is basic training provided	No/Yes
	45.Vocational training	Are employees sent on vocational courses?	No/Yes
	46.Work experience	Work experience offered to schools?	No/Yes
	47.Apprenticeships	Question on apprenticeships	No/Yes
	48.Networks	Is the borrower involved in networks/groups	No/Yes
	49.Referrals	Has the borrower referred anyone to the CDFI?	No/Yes
	50.Satisfaction with loan	Scale questions on satisfaction and process (1-10)	Scale
	51.Satisfaction with application	Scale question on satisfaction with application (1-10)	Scale
	52.CDFI confidence	Did CDFI confidence improve?	No/Yes
	53.Business mentorship	Was any advice given to borrower?	No/Yes
	54.CDFI relationships	Is there a good relationship with the borrower?	No/Yes
	55.CDFI learning	Did the CDFI learn anything from the loan?	No/Yes
	56.Turnover change	Did the loan protect turnover?	No/Yes

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